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Article Emphasizes State Owned Enterprise Development

94CM0384A Beijing ZHENLI DE ZHUIQIU
[PURSUIT OF TRUTH] in Chinese No 8, 10 Aug 94
pp 21-23

[Article by Jiang Yifan (3068 0001 1581): "Give Strong Emphasis to Development of State Owned Enterprises"]

[FBIS Translated Text] Not long ago, comrade Jiang Zemin emphatically pointed out that we must not "waver in our faith of building up the state owned enterprises, let alone considering them a 'burden'" just because they are now faced with many difficulties. This statement has great significance in terms of guiding the development of state owned enterprises.

Reports indicate that Sichuan province plans to put up for out-of-province sales 33 state owned enterprises, including the Changzheng Pharmaceutical Factory, enterprises with the combined fixed assets of 3.6 billion yuan, employing 77,000 workers, located mainly in and around the relatively strong industrial base of Chengdu and Chongqing with access to transportation and including mechanical, metallurgical, chemical and textile industries. Among them, 84.8 percent are operating at a profit—and the rest, although encountering some difficulties, still possess considerable potentials for growth; one should indeed deliberate carefully before selling these state owned enterprises under such circumstances.

One-third of all state owned enterprises are relatively profitable, one-third are running deficits while one-third operating with hidden losses. Small enterprises have their difficulties, but so do large and medium-size enterprises; enterprises with out dated facilities and technology have difficulties, but those with advanced facilities and technology also have theirs; enterprises with excess inventories have difficulties, but so do those whose products can hardly keep up with demands; enterprises operating at a loss have difficulties, but those which make profits selling their products but operate under burdens of heavy debts also have theirs.

Why is it that these things are happening? In addition to factors internal to the enterprises themselves, the main reasons include such things as the profit tax, debts allocation, exchange rates fluctuation, etc. For examples:

—Take the Beijing Chemical Fiber Factory, construction began in 1980 and was completed in 1985. Advanced facilities were imported from West Germany and Japan; of the total investment of 211.56 million yuan, 185.470 million were loans (including \$36.65 million in foreign exchange). By the end of 1992, the factory had paid off 102.78 million yuan [of principal and interest] on the loans, but because of exchange rate changes, the factory today still owes 271.16 million yuan, a debt which exceeds the total investment by more than 50 million yuan.

—Sichuan's Wuzhou Power Supply Factory (code name factory 756) is the largest manufacturer of alkaline storage batteries in China, and its facilities were world class in the mid-1980's; although domestic demands exceeded supplies, the products nevertheless were exported to over ten countries and localities abroad. In 1983, the factory was moved from Sanxian to Mianyang, and a West German battery production line was imported at a cost of 24.19 million German marks, paid for by the equivalent of \$7.56 million borrowed from the Bank of China at the then exchange rate which translated to 21.16 million yuan; by 1993, the amount of principal and interests owed came to \$19.529 million which, at the current exchange rate, translates to 170 million yuan, or eight times the original investment.

—In early 1980, many factories in Shanghai wanted to upgrade their technologies but, under pressures of production and profit taxes, they could not even take a few months to work on technological reforms, nor could they do so without the capital, so for a long period of time they could only go all out working with their existing facilities. Later, however, the Shanghai Silk Print and Dye Factory borrowed to upgrade its technology and the results were product sales reaching such places as South Asia, West Europe and the United States, but after paying the profit tax levied on the industry and having to operate with a substantial foreign exchange account, the factory still owes 60 million yuan.

In Shanghai, there is group of enterprises called "three-haves" (having market outlets for their products, effective management, and the prospects for growth and development) such as Guanshengyuan, Meilin, the Shanghai Watch Factory, etc.; after paying their profit taxes, however, these enterprises are left with little surpluses with which to rebuild or refurbish their aging facilities; yet if the latter were done on credit, they would find it difficult to service the loans.

—In addition, because large-scale projects are involved, new difficulties with triangular debts have surfaced. About 60 percent of the enterprises are in debts from borrowing among themselves; Angang [Anshan Iron and Steel Works] owed 7 billion yuan in the latter half of last year, and repaid more than 1 billion yuan in February this year. The Beijing's Hongshi Paint Supply Company, which has to spend 25 million yuan per month to purchase raw materials, collected only 12 million yuan owed it in January this year, and 15 million yuan in February, hardly enough to meet its production turnaround needs. Relevant departments in the State Council at present are urgently trying to solve the problem of production capital.

Many of the difficulties now faced by state owned enterprises, which have made their contributions to the country while carrying their heavy loads over the long term, are the cumulative results of many years, and in

order to straighten out their current difficulties, a series of measures need to be adopted:

(1) Some enterprises suggest that investment in state owned enterprises be made by government funds, that parts of the bank loan portfolios be counted as government investment, i.e. with the government assuming the loans and alleviating the heavy pressure on enterprises to repay the principals and interests. There is, however, another contradiction in reassigning loans to the government; when some among the one-third of enterprises operating at a profit borrow money to operate and the businesses prosper as a result, and after they pay off the loans with interests (some even repay their loans before taxes), the newly added equities belong to the government. But views on this are by no means unanimous, and some enterprises are still wrestling with this issue.

(2) Some factories note that exchange rate changes are the result of government fiscal policy and factories should not be saddled with the losses due to devaluations of the renminbi. Many factories can repay all the loan principals plus interests if calculated at the exchange and interest rates then in effect when the factories were first built. Because of exchange rate fluctuations, factories find it difficult to carry the increased debt burdens resulting therefrom. China now has foreign exchange debts totalling some \$80 billion, equivalent to 700 billion yuan based on the current exchange rate; when interests are added, the numbers are astronomical. This is an issue which calls for careful and thorough deliberations.

(3) Accelerate the pace of overall planning for a social insurance system that will gradually alleviate the extra heavy burden of workers' insurance which now falls on the older enterprises.

(4) Based on a system of enterprise management, raise different classes of capital for technological reforms to enable enterprises in each class to carry out reforms, focused mainly on solving the problem of capital construction investment while uncovering any small potential funding sources. Under certain conditions, technology and capital can be brought in to the enterprises in return for state ownership.

(5) It is said that in this year's tax system reform, the tax rates were increased (on coal and charcoal, chemical fertilizer, agricultural machinery spare parts, etc.) for enterprises which operate at a loss as a matter of policy; if true, these should be adjusted.

(6) Banks should continue to provide support to enterprises which still have hopes to grow despite any current losses they may suffer.

(7) Establish a new accounting system and link it tightly to enterprise management. China's economic system reform shows the self-generated improvements of a socialist economic system. As for the accumulated experiences of managing state owned enterprises since the

founding of the country, we should not reject them totally but adopt a discriminating attitude and continue to develop those aspects which are useful, and discard others which serve no purpose. We need to strengthen enterprise management, and carry out the most realistic and meaningful portions of the "70 Articles for Industries" and the "Guiding Principles for the Anshan Iron and Steel Works" reportedly approved by Mao Zedong for operating socialist enterprises. As for Western enterprise managerial experiences, we also need to absorb these selectively, taking in those which are applicable to China, and not directly transferring all of them for use in China.

(8) It is recommended that an all-China conference of state owned enterprises be convened to work out concrete solutions to questions which are at the crux of the problem.

It is believed that with party committees at all levels and the various economic departments in charge all doing their utmost to promote the development of state owned enterprises, those enterprises with market access, profitable operations and good managerial standards will move up to a higher plane, and that a majority of the enterprises currently mired in difficult circumstances due to losses will thrive once again.

Maintenance of Public Ownership 'Essential'

94CM0386A Beijing DANGDAI [CONTEMPORARY TRENDS] in Chinese No 3, 20 Jun 94 pp 21-29

[Article by Zhou Xincheng (0719 2450 1004): "Maintenance of the Dominance of Public Ownership Is a Basic Principle in China's Economic System Reform"]

[FBIS Translated Text] Not long ago, during a panel discussion to examine means of breathing new life into the national economy, various people said that "public ownership is a means," that we must "realize anew that public ownership is dominant," that "state-owned enterprises are incompatible with a market economy; the two cannot be meshed," that "state-owned enterprises cannot orient toward the market to become main entities in the market economy," and that "since we have selected the market as the main means of allocating resources, the state ownership economy must not hold a dominant position." The matter under discussion was how to breathe new life into the national economy, but the conclusion was that the dominant position of public ownership must be abolished, or even that the economy should be transnational. Things were said such as, "Since the economy is not alive, what need is there to rescue it?" All of these thoughts were aired under the banner of "renewing ideas" and "changing thoughts."

These opinions, which run counter to Comrade Deng Xiaoping's theory for building a distinctively Chinese brand of socialism and that violate the spirit of the 14th Party Congress and the Third Plenary Session of the 14th Central Committee Meeting, received the criticism they

deserved from persons attending the meeting. However, these opinions were all too evident in the public comment that followed the panel discussion, but critical statements were nowhere to be seen. Therefore, we feel we must write something to express some views about these opinions in order to ensure a correct understanding of the facts.

I. Public ownership is an essential characteristic of socialism. Repudiation of public ownership amounts to a repudiation of socialism. Things other than public ownership may be permitted to exist in the process of building socialism, but the dominance of public ownership is a basic principle of socialism that we must continue to uphold steadfastly.

Socialism must be built on a foundation of public ownership. This is basic Marxist knowledge. In the "Communist Manifesto"—the common program of communist parties throughout the world—Marx and Engels resoundingly proclaimed: "Communists can capsize their theory in a single phrase: 'the annihilation of private ownership.'" (*Selected Works of Marx and Engels*, Vol 1, p 265). They demonstrated repeatedly that the social character of productivity determines that socialist public ownership is bound to replace capitalist private ownership, with public ownership becoming the economic foundation of future socialist society. In translating the ideals of scientific socialism into reality, Lenin abided by the tenets of Marx and Engels. On many occasions, he emphasized that "the social revolution of the proletariat" must "employ public ownership of the means of production and commodity circulation channels as a replacement for private ownership." He said that the mark of socialism on the economy is "public ownership of the means of production and distribution of goods on the basis of the amount of work of each person." (*Complete Works of Lenin*, Second Edition, Vol 39, p 178). Basically, the Soviet Union's socialist system was founded on these principles.

On the eve of the liberation of China, Comrade Mao Zedong foresaw that in the development of the new democratic society into a socialist society, simultaneous with emphasis on the development of a state-owned economy having a socialist character, capitalist industry and commerce, as well as agriculture and handicraft industries, would have to undergo socialist transformation. By 1956, the country had substantially completed this task. Despite the problems of one kind or another that occur in the actual process, public ownership is the foundation of the socialist countries, and thus there can be no wavering on this point. This has become the common understanding of the whole party and the people of the whole country, and it has been incorporated into the basic law of the land—the constitution.

Naturally, as historical conditions change, people's perceptions may change, and the constitution may be amended too. Nevertheless, no matter the changes, the fundamental principles of socialism should not be, nor

may they be permitted to be, changed. Since the Third Plenary Session of the 11th Party Central Committee, Comrade Deng Xiaoping has repeatedly emphasized that public ownership is a characteristic of socialism. The dominance of public ownership is an important integral part of the theory of building a distinctively Chinese brand of socialism. At the beginning of reform and opening to the outside world in 1979, Comrade Deng Xiaoping made some important remarks under the title, "Uphold the Four Basic Principles," which were aimed at the statements of certain people promoting bourgeois liberalization. In these remarks, he said: "The socialist economy is founded on public ownership." (*Selected Works of Deng Xiaoping*, Vol 2, p 153). Later, as reform progressed, even while advocating appropriate development of the individual economy, the private economy, foreign-invested enterprises, and the long-term existence and development in common of many different forms of ownership in the economy, he repeatedly stated that the dominance of public ownership is a fundamental principle of socialism. He emphasized that the non-public ownership economy must take an ancillary position. It must play a role in augmenting the socialist economy, and it must be subordinate to the overall requirement of developing a socialist economy. He said, "Maintenance of a socialist orientation during reform is a very important matter." "Socialism has two extremely important aspects. One is the dominance of public ownership; the second is no polarization." (*ibid.*, Vol 3, p 138). He cited the dominance of public ownership as one of the two basic principles of socialism that must be upheld during reform, and that must be resolutely applied and realized. In the important remarks that Comrade Deng Xiaoping made during his travels in south China during early 1992, he pointed out once again that the dominant position of public ownership is a fundamental criterion for judging the character of our society. He said: "The special economic zones are socialist, not capitalist. The situation in Shenzhen shows the dominance of public ownership; foreign investment is only one-fourth..." (*ibid.*, p 372).

Clearly, there can be no wavering on this point of the dominance of public ownership in practicing socialism. On this matter, there cannot, and must not be, any "new realization." If the result of the "new realization" is refutation of the dominant position of public ownership, then our reforms are bound to depart from a socialist orientation and go astray.

Nevertheless, some people who are held up as "authoritative" economists deny that public ownership is an essential characteristic of socialism, the reason being that "up to the present time, all societies have been ones in which private and public ownership coexist." They term slaveholding, feudal landlord class, and bourgeois nations as having public ownership. From time to time, these self-styled authorities on Marxist classics denounce "authority" as what others have mistakenly translated, but they forget a well-known contention of Engels in "Anti-Duehring": The character of a nation's ownership

is determined by the character of the nation. "Modern nations, no matter their form, are essentially capitalist machines, capitalist nations, and ideally totally capitalist. The more productivity they arrogate to themselves, the more truly totally capitalist they become, and the more they exploit the citizens. The workers remain hired laborers without property." (*Selected Works of Marx and Engels*, Vol 3, p 318). State-ownership by an exploiting class cannot be termed public ownership. Engels ridiculed as having a "complete slave mentality" the bogus socialists who term any form of public ownership socialism. This is truly something that should be taken as a warning. To claim that the rent money that Wang Xifeng [a leading character in *The Dream of the Red Chamber*] made from a private house in Daguan Yuan is private ownership but that the rent from Jia Fu is public ownership may be good for a laugh when people are sitting around talking, but what other value does it have? What does it show when such joking is regarded as "learning" or a "theory?" Maybe the theoreticians themselves and the public psychology understand this.

II. Public Ownership Itself and the Concrete Form in Which Public Ownership Is Realized Must Be Differentiated. Establishment of Public Ownership of the Means of Production Depends on the Character of Productivity. This is Consistent With Requirements For the Development of Productivity. Public Ownership That Is Not Consistent With Development of Productivity Is the Concrete Form in Which Public Ownership Is Realized. It Is a Specific Form of Operation and Management.

It was the utopian socialists who first proposed annihilation of private ownership by the bourgeoisie and the establishment of public ownership of the means of production. They proceeded from theoretical moral concepts in validating this necessity. Although this expressed the aspirations of the working people, one has to admit that it was founded on historical materialist fantasies.

By contrast, Marx and Engels employed historical materialism in proceeding from an analysis of the real contradictions in capitalist society to reach the conclusion that the replacement of capitalist private ownership with socialist public ownership is an inevitable trend in the historical development of mankind. They pointed out that as capitalism develops, and as the social division of labor intensifies and economic ties become closer, productivity becomes increasingly social in character. It is this character of productivity that necessitates society's ownership of the means of production and regulation of the entire national economy. However, private ownership of the means of production by the bourgeoisie prevents realization of this objective requirement that productivity be social in character. Thus, the contradictions between the social character of production and private capitalist ownership becomes the basic contradiction in capitalism. In order to resolve this contradiction, public ownership of the means of production must replace capitalist private ownership.

It was on the basis of this fundamental principle of Marxism that we confiscated bureaucratic capital after liberation to set up a state-owned economy as a prelude to the socialist transformation of capitalist industry and commerce, agriculture, and handicrafts industries. It was also on the basis of this fundamental principle that during progress in reform and opening to the outside world following the Third Plenary Session of the 11th Party Central Committee, we steadfastly maintained the dominance of public ownership, making the safeguarding of the dominant position of public ownership the fundamental principle of socialism that had to be observed in reform.

In the discussion of public ownership, we do not proceed from any kind of dogma. We rely on an analysis of the interrelationship between productivity and production relationships in real life. The reason for our maintenance of the dominance of public ownership is also not because someone says so, but because public ownership is in keeping with the social character of productivity. It can emancipate and develop productivity.

However, that public ownership is in keeping with the nature of productivity and opens broad vistas for the development of productivity does not mean that there are no contradictions between public ownership and productivity. In an analysis of the interrelationship between socialist production relationships and productivity, Comrade Mao Zedong said: Socialist production relationships in China "are commensurate with the development of productivity; however, they are still very imperfect. This imperfection and the development of production are mutually contradictory." (*Selected Works of Mao Zedong*, Vol 5, p 372).

Comrade Deng Xiaoping has carried on and developed this thought of Comrade Mao Zedong. After analyzing the actual interrelationship between production relationships and productivity in the wake of China's "Great Cultural Revolution," he clearly noted that the basic socialist system (meaning the dominance of public ownership and the gradual realization of a good life for all in the economic realm) is in keeping with the nature of productivity. It must be steadfastly maintained and carried out, without the slightest wavering being permitted. Although the former highly centralized planned economy had its historical origins and played a historical role, it hobbled the development of productivity as historical conditions changed. It also conflicted with productivity. No longer are there separate links and separate aspects of the economic system, but there is an overall economic system model. Therefore, the economic system must be fundamentally changed and the entire operating mechanism transformed. This is the task of reform.

Therefore, in analyzing the state-owned economy, we must separate issues at two levels, namely public ownership and the specific form in which public ownership is to be realized. As an integral part of the basic socialist

system, public ownership itself is in keeping with the character of productivity and must be maintained. The specific form in which public ownership is realized, i.e., specific operating forms and management methods, which are an integral part of the economic system and the operating mechanism, already hamper the development of productivity. They must be reformed. Therefore, our reforms aim at transformation of the national economy's operating mechanism rather than eliminating the national economy itself. Confusing the targets of reform, aiming the spear of reform at the basic socialist system itself, will inevitably mean taking the capitalist road. This is what the former Soviet Union did and what Russia is doing today. The consequences are also known to all. Observers who do not harbor prejudices and who face reality squarely may not reach the conclusion that such reform has emancipated the development of productivity!

III. The Relationship Between Ownership and Productivity Determines Action and Reaction; It Is Not a Relationship Between Means and Ends. To Say That the Use of Public Ownership Is Optional Is a Violation of Marxism in Theoretical Terms, Which Leads in Practice to a Negation of the Dominant Position of Public Ownership.

In discussing the public ownership issue, some people repeatedly propose a kind of "new concept," namely that public ownership is a means, but the development of productivity is an end. On first hearing, this seems plausible. It is somewhat "novel." However, upon slight deliberation, one finds this thesis is not consistent with Marxism.

Let us analyze in theoretical terms the relationship between public ownership and productivity. Everyone knows that ownership is the foundation for social production relationships. Therefore, to talk about the relationship between ownership and productivity is, in fact, to talk about the relationship between production relationships and productivity. In social production, productivity is the material content produced, and production relationships are the social form of production. The organic association and unity of productivity and production relationships makes up the form of a society's production. Within any given means of production, the correlation between productivity and production relationships is one that decides actions and reactions: productivity determines production relationships, and production relationships react on productivity in turn. When production relationships are in keeping with the nature of productivity, they may advance the development of productivity. Conversely, they may hamper the development of productivity. On the basis of basic Marxist principles, we may say that the establishment of public ownership of the means of production is determined by the social character of productivity rather than a subjective choice that people make. When socialized production exists, the replacement of private ownership with public ownership can emancipate and develop

productivity. Stimulation of the development of productivity is consistent with the objective role of public ownership having a productive character. The dialectic correlation between public ownership and productivity cannot be capsulized as the relationship between means and ends.

If one insists on this ends and means categorization, it must be pointed out that in no society may the development of productivity be taken as the ultimate goal. The development of production is only a means of reaching a certain end. The goal of production differs under different social systems, and the goal of production is not determined by people's subjective desires. It is determined by the form of ownership of the means of production that holds the dominant position in that society. Social production inevitably serves the interests of those who own the means of production. The character of ownership of the means of production corresponds to the character of the special material interests of the owners. Correspondingly, the goals of social production are of the same character. In a capitalist society, capitalists are the owners of the means of production, so social production serves the basic interests of the bourgeoisie. This determines that the production goal of the capitalist is pursuit of the maximum surplus value and profit. In a socialist public ownership system, working people own the means of production in common to become the masters of social production. This determines the goal of socialist production to be satisfaction of the material and cultural needs of all working people, and promotion of their complete development.

Clearly, the formulation that "public ownership is a means and the development of productivity is an end" distorts the relationship between public ownership and productivity. Matters that Marxism has already explained ever so clearly, some people are purposely obscuring. Specious "new ideas" are proposed, the intent of which is not apparent when viewed in isolation. However, when linked to the other points of view that they publicize, the intent is immediately evident.

Those who say that "public ownership is a means" openly declare that inasmuch as public ownership is a means, so long as productivity can be developed, any means may be used. The proponents seemingly are completely detached. They have truly become "nonideological." It is all right to do just as one pleases. Public ownership or private ownership—it makes no difference. So long as the economy develops, it is all right. But is this the way things really are? No. The intent of those who say that "public ownership is a means" is extremely clear. They have a "three stage formulation." Public ownership is a means, therefore, "public ownership is a matter of choice"; "public ownership and a market economy are incompatible"; therefore, one cannot choose public ownership in operating a market economy. The conclusion, naturally, is that privatization is the sole choice.

On hearing the statement that no matter whether ownership is public or private, so long as the economy develops all is well, we cannot help but experience a sense of *deja vu*. We recall an extremely "moving" statement in 1989 when someone was running for people's delegate in the USSR: "So long as the Russian people's life improves, there is no need to ask whether it is socialism or capitalism!" It is very clear today that this person was advocating taking the capitalist road, but that he could not say so directly under the circumstances existing at that time. He had to use a nonideological manner of expression. The use of specific methods in specific circumstances has a certain universality. Should not people be on guard against such methods?

In order to avoid misunderstanding, let us say once again that we do not oppose moderate development of non-socialist economic components based on private ownership. Such economic components are needed during the initial stage of socialism. They can play a positive role in development of the national economy. However, these nonsocialist economic components can only be a supplement to the socialist economy. They positively cannot become the dominant element. If they are "chosen" to be the dominant element, China's socialist system will degenerate. The form of ownership that holds sway cannot be selected at random.

IV. Public Ownership and a Market Economy Are Not Mutually Exclusive. To Say That Public Ownership Is Incompatible With a Market Economy Is Actually To Revert to the Old Concept That a Market Economy Is in the Category of a Basic System. This Amounts To Saying That a Socialist Market Economy Cannot Be Established.

One formulation making the rounds is that "once the market economy issue has been solved, the key to whether the next step in reform can be accelerated lies in ownership system reform." Reform what ownership system? They believe that the privately owned economy and foreign-invested enterprises are the "vanguard of a market economy," so naturally no reform is needed. Instead, vigorous development is needed. It is public ownership that needs reform. This is because public ownership and a market economy are incompatible. What kind of reform? Reportedly, the first need is to destroy the ideological bogeyman of "privatization." The separation of ownership rights and operating rights is a dream, and the clarification of property rights is a dream. All that is possible is "the yielding of ownership rights," meaning changing to private ownership. In a word, operation of a market economy requires the abolition of public ownership and the institution of privatization. Otherwise, you end up in a blind alley. This is the conclusion.

As for the political implications of their conclusion, there is nothing we need say. This is because a reading of volume three of the *Selected Works of Deng Xiaoping* on upholding the four basic principles and opposing bourgeois liberalization makes matters extremely clear. One

thing that does merit discussion is their contention that public ownership and a market economy are incompatible.

First, the contention that a market economy is an economic means in the category of an operating mechanism must be clarified. Formerly, people frequently regarded a planned economy as an essential characteristic of the socialist system. They regarded a market economy as an essential characteristic of the capitalist system. Thus, they did not dare employ the role of the market mechanism in economic activity. Comrade Deng Xiaoping criticized this point of view back in 1979. He said that "to say that a market economy is limited to a capitalist society and to capitalist markets is definitely incorrect." ("Special Excerpts From Deng Xiaoping's Thesis About the Building of a Distinctively Chinese Kind of Socialism," p 95). He said explicitly that operation of a socialist market economy is possible and that there is no fundamental contradiction between socialism and a market economy, because both plans and markets are methods for developing productivity. (See *Selected Works of Deng Xiaoping*, Vol 3, pp 148, 203). In the important remarks he made during his noted travels in south China, he said: "A little more planning or a little more market is not the essential distinction between socialism and capitalism. A planned economy does not equate with socialism; capitalism also has planning. A market economy does not equate with capitalism; socialism also has markets. Both plans and markets are economic means." (ibid, p 373). This scientific thesis of Comrade Deng Xiaoping completely removes the ideological restraints on regarding both a planned economy and a market economy as belonging in the category of a basic social system. It emancipates our thinking, enabling us to use a market economy bravely for the development of productivity, and for the exploration of all sorts of concrete measures and policies for establishment of a market economy system.

The connotations of a market economy permit the conclusion that a market economy can be combined with a system founded on socialism. Since a market economy is an economic means and a kind of operating mechanism, capitalism may be used, and socialism may be used too. They can operate on a private ownership foundation, or they can operate on a public ownership foundation. For one to suppose that operation of a market economy requires the elimination of public ownership and the practice of privatization amounts to a return to already rejected concepts such as: a market economy is in the category of a basic system in society. It can only be combined with private ownership; it cannot be combined with public ownership. One can only have a capitalist market economy. One cannot have a socialist market economy. Obviously, this runs counter to the thought of Comrade Deng Xiaoping.

Second, it must be pointed out that in theoretical terms, a market economy as an operating mechanism is compatible with public ownership. In other words, one can

build a market economic system on a foundation of public ownership. The establishment of a market economy has one minimum prerequisite, namely that the dominant entity in market exchange is independent, having its own economic rights and interests. Private ownership meets this condition. Moreover, during historical development, before the advent of the socialist system, a market economy has always been associated with private ownership and founded on private ownership. Consequently, people are prone to suppose that a market economy can be operated only if private ownership exists. After victory in the socialist revolution, because of the restraints imposed by international and domestic situations as well as the limitations of ideological perceptions, in many countries for a considerable length of time, public ownership of the means of production came to mean state-ownership, state direct operation, and centralized responsibility for profits and losses. Enterprises lacked autonomy in management and independent economic rights. Public ownership and a market economy were mutually exclusive. This also easily gives people the impression that a market economy cannot be operated with public ownership. However, this view is wrong. Past practice does not produce the conclusion that public ownership per se cannot be combined with a market economy. This is because public ownership can be expressed in many different forms in an economy. Since the beginning of economic system reform, China has emphasized the proper separation of ownership rights and operating rights in the system of ownership by the whole people. It has advocated state ownership, enterprise autonomy in management, and enterprise responsibility for profits and losses. Enterprises are to operate in the market as independent commodity producers and operators. Thus, the objective prerequisite conditions for establishment of a market economy are in being. Thanks to more than a decade of practice in reform and opening to the outside world, particularly the progress made in reform during the past several years, a large number of state-owned large and medium-sized enterprises have entered the market to varying degrees. They are taking part in management activities as the market mechanism requires (albeit, at a level that is very far below the needs of a market economy). Obviously, looked at solely from the theoretical understanding angle, the mistake in supposing that public ownership and a market economy are as incompatible as fire and water, and that a market economy can be established only when private ownership exists lies in having an absolutist view about the forms in which public ownership can be practiced. It denies that public ownership can operate in many ways. Actually, it amounts to saying that public ownership cannot be reform, or that reform is possible only by repudiating public ownership itself.

Comrade Jiang Zemin stated clearly: A "socialist market economy is a complete concept. Stated briefly, it is the effective matching of the superiority of public ownership with the market economy's optimum allocation of

resources. The two are not separate nor does one function at the expense of the other." People who state that public ownership and a market economy are incompatible obviously will not approve of this thesis of Comrade Jiang Zemin. Energetic advocacy of a market economy and declaring that public ownership and a market economy are incompatible cannot but make people wonder just what kind of market economy the advocates intend.

V. Only By Maintaining Public Ownership of the Means of Production as the Dominant Element Can Reform Follow a Socialist Orientation. Were Public Ownership To Lose Its Dominant Position in the Entire National Economy, That Would Spell an End to All Socialist Endeavors

In talking about how the dominance of public ownership and a good life for all are the fundamental socialist principles that we must uphold, Comrade Deng Xiaoping seemingly foresaw that some people would seek to use reform as an opportunity for repudiating these two fundamental principles of socialism. He particularly noted that "Nowadays some people worry about whether China will become capitalist. One cannot say that such a worry is entirely groundless. We must use facts, not empty talk, to eliminate their worries, and respond to those who hope we become capitalist." He said, "We are working for the socialist cause, the ultimate goal of which is the realization of communism." Our reforms "have socialist public ownership as the dominant element throughout. The goal of socialism is a good life for all the people throughout the country, and not polarization. If our policies lead to polarization, we will have failed. If they produce a new bourgeoisie, we will have gone astray." (Ibid, pp 110-111). Thus, he emphasized that "in the entire process of reform and opening to the outside world, we must pay close attention to maintenance of the four basic principles throughout." It was also for this reason that he emphasized the need for forthright opposition to bourgeois liberalization, pointing out that opposition to bourgeois liberalization is a long-term task. "It must go on for more than 20 years." "If bourgeois liberalization runs rampant, the consequences will be extremely grave... Collapse can occur overnight." (Ibid, p 379).

Real life tells us that reform can be risky. Mistakes in choosing the objects of reform, aiming reform at the basic socialist system, for example, may cause reform to go astray on the capitalist road. The painful lesson of how the Soviet Union evolved into capitalism under the banner of reform should be taken to heart. Guided by Gorbachev's humanitarian democratic socialist line, reform attacked the commanding position of public ownership of the means of production as a form of "economic monopoly" leading to "alienation of man from the means of production and property." Consequently, public ownership had to be abolished in favor of privatization for the establishment of a market economy founded on private ownership. The result was the very

rapid demise of the cause of socialism. Those who cannot remember the past are condemned to repeat it. During the entry process of reform, we must staunchly apply this fundamental socialist principle that public ownership is dominant to ensure that reform follows a socialist orientation in moving ahead.

In the important remarks he made during his travels in south China, Comrade Deng Xiaoping clearly said that the basic socialist system and the economic system are inseparable. He said that our reforms must be premised on maintenance of the basic socialist system, thoroughly changing the economic system that hampers the development of production for the emancipation and development of productivity. The object of revolution is the basic system of society, but the object of reform is the concrete economic system and operating mechanism. Methodically, by separating the basic system and economic institutions, one can understand the oneness in maintaining reform and opening to the outside world and maintenance of a socialist orientation.

However, frequently some people use the development of productivity as a pretext for strenuous efforts to lead reform astray toward negation of the basic socialist system. This is not strange at all. After more than a decade of reform, China has shaped an ownership structure in which public ownership is dominant and in multiple economic components co-exist and develop in common. Such a structure is in keeping with the current level of China's productivity, and it is also in keeping with needs for the development of productivity. The co-existence of multiple economic forms economically is reflected in the ideological realm as different ideologies. The development of a privately owned economy and foreign-invested enterprises will pose the need to change their supplementary position politically. Have not privately owned enterprises already declared: "The dominant position is not set in concrete. Whoever succeeds is

dominant?" Correspondingly, some people may argue from a theoretical standpoint the necessity form abolishing the dominance of public ownership, using statements such as "public ownership is a means; the development of productivity is the end"; public ownership and a market economy are incompatible"; or even that "a privately owned economy is not exploitive; it is socialist in character," etc. They may also stubbornly express such views. Of course, so long as we maintain a clear-headed understanding of this point, such a situation will not interfere with the overall situation. The more economic components co-exist, the more we must emphasize that public ownership is dominant. The more ideologies that co-exist, the more we must emphasize that Marxism-Leninism is the guide. In this way, we will be in an unassailable position.

It must be noted that the economic foundation for public ownership of the means of production is the CPC's maintenance of the leading position and the practice of the dictatorship of the proletariat. Were the dominant position of public ownership to be discarded and bourgeois private ownership allowed to take the commanding position, the CPC as the party of the working class could not hold power, the dictatorship of the proletariat could not continue, and the complexion of socialist countries would change. This is precisely the goal that imperialism seeks to attain by promoting a strategy of peaceful evolution, and "waging a world war without gun smoke." Were the various statements in opposition to the dominance of public ownership to issue from the mouths of the bourgeoisie, that would be understandable, because that is where their class interests lie. If a member of the CPC declares that "public ownership is not as good as private ownership," calls for a new understanding of "the dominance of public ownership," and advocates privatization, that deserves deep thought.

National Affairs, Policy

Li Yining Comments on Current Economic Problems

94CE0782B Shenyang ZHONGHUA SANCHANYE
BAO in Chinese 25 Aug 94 p 1

[Article by Cai Ming (2088 7686): "Li Yining Comments on the Three Great Pressures of Inflation, Unemployment, and the Growing Income Gap That Are Troubling China's Economic Development"]

[FBIS Translated Text] The famous economist, Professor Li Yining [0632 0110 1337], pointed out the other day in Beijing that as the Chinese economy grows obviously faster, its economic problems are also clearly surfacing. As these problems put pressure on China's economic development, unless we face up to the problems caused by faster economic growth, there will be severe consequences. Professor Li notes the three most critical economic problems:

1. Inflation. When analyzing the causes of inflation, we need to: a) pay attention to economic system problems, b) take note of economic structural problems, and c) understand the inevitability of price rises caused by abolishing price controls. As to economic-system causes, while speeding up our economic growth, as investment, banking, and enterprise system reforms are lagging, investors do not assume risks, making it hard to curb inefficient or low-efficiency investment and causing our investment scale to grow so large that it exceeds our national economic endurance. Regarding economic structural causes, while speeding up our economic growth, certain bottleneck-sector products are in severely short supply with price rises for these products spurring overall price rises, while industrial structural adjustment is hampered by our economic system, making advances difficult. It is thus obvious that inflation has deep causes, so certainly cannot be eliminated by simply taking steps to curtail demand.

2. Unemployment. China now has over 10 million young people a year reaching the age of 18 who need jobs. No matter how fast our economy is growing, these people all need jobs. In addition, large numbers of surplus rural workers are going out to look for work, state enterprises are operating poorly, having to cut back employees, and the employees of factories that have stopped production or gone bankrupt are in even more need of jobs. The unemployment problem has always existed, as well as being subject to a double bind. If we speed up reform, factory bankruptcies increase, as does unemployment. But if we slow reform, losing factories continue to sustain losses, making it hard for our fiscal might to endure. And if the released surplus rural workers cannot find suitable jobs, this will cause social unrest. So unemployment is a headache, particularly as to social stability.

3. The growing income gap. Planned distribution was equalitarian distribution, leaving people with a sense of

being "self-anesthetized," with everyone's income being about the same, and consciences easy. But since we have begun making the transition to a market economy, with our regional and individual income gaps growing, while our percentage of poverty-stricken households is down and most families have much higher living standards, the ever growing regional and individual income and living-standard gaps have touched off social unrest, which is another problem that will be hard to solve in the short term. As long as our economy continues to grow at a faster rate, while economic growth rates are lower in poverty-stricken regions than in developed zones, leaving the incomes of the poor to grow generally less than those of the rich, it will be even harder to improve the living standards of poverty-stricken regions and poor families.

So Professor Li Yining holds that: While it seems that it would be unrealistic to think that we could eliminate in the short-term these three great pressures confronting our economic development, letting matters drift and being indifferent to them might touch off an economic and social crisis. So we need to make mid- and long-term plans, while taking certain emergency steps in the short-term, and even more practically and effectively pushing forward with investment, banking, enterprise, and social security reforms, to gradually lighten and eliminate these three great pressures.

Liu Guoguang on Grafting To Reform State Enterprises

94CE0782A Chengdu SICHUAN JINGJI RIBAO
in Chinese 7 Sep 94 p 2

[Article extracted from SHOUDU JINGJI XINXI BAO 9 Aug 94: "Famous Economist Liu Guoguang Holds That the Second-Best-Plan Phenomenon Is an Exploration in Upgrading State Enterprises"]

[FBIS Translated Text] For some time now, the "second-best-plan phenomenon," characterized by joint-venture grafting of state enterprises through the means of slicing up and stock control [controlling interest], has become a hot topic of conversation among entrepreneurs and economics theorists. The famous economist Liu Guoguang [0491 0948 0342] points out in a recent article that the "second-best-plan phenomenon" is in line with the urgent needs of state enterprises to modernize, upgrade, and establish a modern enterprise system, being an effective way to upgrade state enterprises through the use of direct foreign investment.

Liu Guoguang holds that the "second-best-plan phenomenon" has three major features:

1. The second-best plan is not limited to single enterprise investment, rather being mainly a grafting upgrade to slice up local enterprises and develop them into groups.
2. The second-best-plan investment is not an ordinary joint venture, but rather the use of the means of controlling interest, or the holdings percentage reaching 51 percent, to acquire the full controlling interests in state enterprises.

3. The second-best-plan of joint-venture grafting of state enterprises is not limited to the use of second-best-plan group capital per se, but instead takes advantage of the second-best-plan group familiarity with overseas enterprise listing principles and channels, to convert certain state enterprises after reorganization into international enterprises to be listed abroad, to attract more overseas investment to the development of our domestic economy.

As to the many suspicions and doubts about and even opposition to the "second-best-plan phenomenon" since its appearance, Liu Guoguang holds that: Practice will best illustrate the matter. Most of the investment, controlling interest, and participation by second-best-plan groups in the grafting upgrade to "convert the operating forces" of state enterprises is complete, with good results that have upgraded our enterprise operation and management methods, organizational structure, and technology and equipment; adjusted our economic structure, industrial structure, and product mix; steadily developed production operations, quickly raising enterprise efficiency; increased state revenue, reduced the fiscal burden, and added to individual income. This shows that the "second-best-plan phenomenon" is an effective way to use foreign investment to upgrade state enterprises. As to the matter of the loss of state property that is of universal concern, the crucial point is that the assets of state enterprises need to be scientifically and rationally evaluated and, as long as the state enterprises participating in the grafting reorganization obtain reliable and accurate evaluations, there is no need to be concerned about the loss of state property. As state property is converted from a physical to a value state, some of which is listed, this is a common practice in the smooth operation of a modern market economy, which preserves and increases the value of state property.

Liu Guoguang on Difficulties, Solutions In Economic Reform

94CE0772A Nanjing XINHUA RIBAO in Chinese
19 Aug 94 p 7

[Article by Liu Guoguang (0491 0948 0342): "Difficulties and Strategies in Economic Reform"]

[FBIS Translated Text] I am optimistic about the future of economic reform in China. The international and domestic situations provide a rare opportunity for accelerating the development of the Chinese economy. Right now is the best time for reform. To begin with, the achievements of a dozen years of reform have now made reform and the open policy part of the public consciousness. People are gradually breaking with their habit of questioning whether something is "surnamed" socialist or capitalist. The basic line of adhering to "no change for a hundred years" has given reform and the open policy an unstoppable momentum. Second, after a dozen years of reform we have accumulated ample experience, both lessons of failure and success. Along with lessons drawn

from international experience, such experience has made us more mature in both thinking and practice as reformers in the future. Third, the Chinese economy has now gotten much stronger and has more staying power over the past 10 years. After Deng Xiaoping delivered his important speech in 1992, in particular, the Chinese economy has been expanding robustly. Most foreign politicians and investors are optimistic about the future of the Chinese economy and foreign funds have been entering China at an unprecedented rate. All this bodes well for deepening reform in China. Needless to say, Chinese reforms cannot be smooth sailing all the way with no barriers at all in its path. As it pushes forward, it will meet challenge after challenge, difficulty after difficulty. They must be dealt with and resolved in earnest.

For over a dozen years, Chinese reforms have advanced incrementally and achieved success at every stage. The present reform strategy remains one of incrementalism. Inherent in an incremental strategy, however, is a transitional phase during which the Chinese economy changes from a planned economy into a market economy. With the old and new systems coexisting during the transition, conflicts inevitably multiply. Add these institutional conflicts to the contradictions that grow out of economic development and the transition will be a most trying period for the Chinese economy. Among the major problems are:

- Economic reform requires a relaxed economic environment in which the economy is growing briskly, but not too rapidly. However, the habit of eating from the big rice pot and soft budgetary discipline, part of the old order, are still making their effects felt. Economic overheating and inflation, brought on by investment fever, have happened again and again, disrupting the reform process.

- Overburdened state enterprises find it hard to switch to the new system. They labor under four heavy burdens: First, large numbers of retired personnel and redundant workers who cannot be fired; second, overly high taxes; third, debt burden inherited from the past; and fourth, social burden, that is, the host of social welfare undertakings they are required to organize for their workers.

- Economic reform requires the dismantling of an overly centralized system. The decentralization of power, however, especially the introduction of the general financial contracting system, has given rise to overly powerful local governments. The redistribution of power and interests between the central government and its local counterparts has run into resistance from vested interests at the local level.

- Regional development has been unbalanced. Economic growth in the eastern coastal region has consistently been faster than that in west and central China. As a result, the economic development gap between the coastal region and the interior, between east China

and central and west China, has widened, causing a number of socioeconomic problems.

- The problem of surplus rural workers. In China a plentiful labor supply is a resource, but it also cause unemployment. During the past decade or so, township and town enterprises and other nonagricultural sectors have absorbed more than 100 million surplus rural workers, but that still leaves 170 million people or so out of work at the moment. Rural migration has put enormous pressures on reform and development.
- The widening economic gaps between people in different trades, professions, economies, and units has bred social discontent.
- After China accedes to the GATT, a number of domestic industries are expected to come under competitive pressures.
- Even as it opens China's door to advanced positive things, the open policy has brought into the country negative, degenerate things such as pornography, drugs, violence, and corruption.
- Among the numerous items of reform, a pivotal one is changing government functions and streamlining the administrative machinery. This item of reform has been hobbling along with difficulty and progress has been painfully slow, hindering reform on other fronts.

To tackle the above-mentioned problems and challenges facing the Chinese economy, we must mull over and decide upon the right responses. Only then can we ensure smooth progress and endless success on the reform and open policy front and in modernization

Below is a discussion of the strategies that may be used to grapple with the above problems.

- Providing a more relaxed economic environment. During the transitional period between now and the end of the century when we will have tentatively put together a socialist market economy, we should primarily rely on macroeconomic regulatory and control measures that are just right, neither too severe or too lax, to keep the economy growing at no more than 8 or 9 percent on average, reduce cyclical fluctuations, and in particular, prevent and control economic overheating and high inflation.
- What shall we do about the onerous burden on enterprises as they work to change their mechanism and restructure? What is needed is tax reform that will redistribute the tax burden equitably among the different economies. As for the debt burden inherited from the past, it must be dealt with on a case-by-case basis as the circumstances warrant; some debts may be converted into shares while others may be written off. Retired personnel and redundant workers now impose an excessive burden on enterprises. The answer is to improve the social security system and reform the enterprise employment system. To ease the "social"

burden on enterprises, we must develop the tertiary industry and gradually take enterprises out of the business of providing social welfare and social services.

- On the relations between the central government and localities. To reverse the trend of too much power accruing to local governments and boost central revenue from less than 40 percent to 60 percent of all revenue collected in the nation over time, a tax separation system should be adopted to replace financial contracting. Reform in years past have yielded base figures and ratios determining how much funds localities should turn over to the central government and the distribution of tax types between the central government and local authorities that reflect the interests of the latter. We need to adopt practices in widespread use around the world, such as tax rebates and a financial transfer system. Central spending eventually should account for 40 percent of all government spending in the nation. In view of China's vast size and considerable regional unevenness in the level of economic development, we should go all out to fully mobilize the initiative of both the central government and local authorities, at the same time enhancing the central treasury's macro regulatory and control power in fiscal matters.
- On the widening gap between the coast and the interior. The solution to that problem is essentially one of accelerating the development of the interior and opening it up even further to the outside world. The government must not only give the interior and remote border regions the necessary financial aid, but, even more important, work hard to build up in a big way the infrastructure between the coast and the interior and between east and west China, for instance, by constructing railways, highways, and telecommunications facilities. In addition, it should liberalize the policy governing investment in the interior. Both domestic and foreign capital must be attracted to accelerate resource exploitation and economic development in the interior.
- Widening income gaps between people in different trades, professions, economies, and units. Like the problem of widening regional economic development gaps, this is an inevitable phenomenon in the initial stage of developing a market economy. The question is how to narrow the income gaps. This can be done by gradually eliminating the "rent-seeking" behavior induced by price differentials (including differences in interest rates and exchange rates) under the dual-track pricing system and creating a fair wage system and personal income tax system.
- Creating jobs for the army of surplus rural workers. The most important solution is to continue to work hard to develop township and town enterprises, blanket the countryside with small towns, develop labor-intensive industries even as we make a push for

technology- and capital-intensive ones, and go all out to develop the tertiary industry to absorb rural surplus workers. We should take special pains to nurture township and town enterprises in west and central China. At present the de-agriculturalization of the rural work force may mean people finding employment right where they are, that is, they quit farming but remain in their villages. It also may take the form of inter-regional migration and migration from rural to urban areas.

—About domestic industries coming under competitive pressure after China joins GATT. Despite its low-wage edge, Chinese industry is uncompetitive because of the poor quality of many of its products. China's accession to GATT would put considerable pressure on domestic enterprises, spurring them to raise their level of technology, improve product quality, and make themselves more competitive. For consumers, such a development would only do good and cause no harm. As tariffs come down, imports will increase and domestic prices will fall because of more plentiful supply, which will help exports. The key is to keep our international payments in balance. Ensuring an unimpeded flow of foreign capital into China would help us maintain such a balance. Since China is a developing country, it necessarily has to protect certain fledgling industries, but must not overdo it. Otherwise those industries will have trouble raising their technological level, boosting their competitiveness, or lowering their production costs, to the detriment of economic development.

—How to tackle the socially pernicious phenomena that occur as China makes the transition to a market economy. We should realize that evils like pornography, drugs, and violence are inherent in development. The key is to battle them with effective measures endlessly. On the one hand, we must step up education to raise the quality of the masses, particularly young people, so that they can resist these negative things on their own initiative. On the other hand, we must toughen the laws. We must formulate detailed rules and regulations and enforce them strictly in order to crack down on social evils unwaveringly. Another key here is that the government must prevent official corruption. If it succeeds there, it can do anything.

—Finally, about changing government functions and streamlining the government machinery. Resistance to that kind of reform is considerable and progress is slow because it involves the redistribution of power and interests, and the reassignment of personnel. Often it is a case of putting old wine in new bottles: disbanded enterprises and associations simply reappear in a new guise. Since government machinery reform apparently entails the readjustment of the power structure, the solution is to further the reform of the political system and administrative system. As for the reassignment of personnel streamlined out of a

job, we must look to a variety of economic and cultural units to absorb these workers. Retraining offers another way out.

Current, Future Price Trends of Capital Goods Analyzed

94CE0690A Beijing GUANLI SHIJIE
[MANAGEMENT WORLD] in Chinese No 4, 24 Jul 94
pp 53-58

[Article by Liu Wen (0491 2429) and Liu Xiaonan (0491 1420 0589): "An Analysis of Current Capital Goods Prices and Their Future Price Trends." The authors are affiliated with the State Planning Commission's Market and Price Regulation and Control Department]

[FBIS Translated Text] I.

Since the beginning of this year, the localities and departments have been diligently implementing the Central Committee's guiding principle to "seize opportunities, deepen the reform, open up further, promote development, and maintain stability." They have been working hard to coordinate and promote reform, development, and stability. As a result, the national economy is maintaining a good momentum, and various measures to strengthen macro regulation and control are beginning to show results. In particular, China's capital goods markets have changed dramatically: The markets were brisk, and prices were rebounding in January and February; today, they are relatively stable, and supply and demand are fairly balanced, and the price increase trend has leveled off. The important characteristics are:

One, overall supply and demand are balanced, and purchases and sales are steady. Except in January when society was still affected by expectations of higher prices and the supply of steel materials, nonferrous metals, and famous brand automobiles was tight, the supply of other products have been abundant, and sales of lumber, building materials, fuel, chemical products, and ordinary machinery and electrical products have been stable. Statistics show that, nationwide, purchases made by the goods and materials management units at the county-level and higher in the first quarter fell 15.9 percent compared to the same period of last year, and sales dropped 14.7 percent. Purchases and sales made by the goods and materials companies under the jurisdiction of the Ministry of Internal Trade in the first quarter also fell 35.6 percent and 21.6 percent, respectively, compared to the same period of last year.

Two, the overall price level rose at first but leveled off in subsequent months. Except for the prices of steel materials, nonferrous metals, and coal which rose in January and February, other product prices have been stable. Compared to the same period of last year, the overall price level of capital goods rose 15.8 percent in January, 10.3 percent in February, and 5.2 percent in March; the average price increase was 8.2 percent for the first quarter, 30 percentage points below last year's increase

in the same period. By April, except for some nonferrous metals and chemical products, the prices of most other types of products continued to be stable with slight declines; the overall price level was 0.3 percent lower than in March, 0.7 percent lower than at the beginning of the year, though 0.4 percent higher than in April of last year. The average January-April price level rose 5.8 percent over the same period of last year. This was in sharp contrast to the 44.4 percent increase in the prices of capital goods in the first half of last year.

Prices for the major product categories have undergone the following changes: (1) Market prices have been unstable. Because steel plants raised the factory-exit price of steel at the beginning of the year, the market price of wire rods has been firm. Spot price rose in mid-January, and future price also soared. Between January 16 and 18, the spot price for 6.5 mm wire rod shot up 700 yuan a ton. In Suzhou and other localities, the standard contract closing price for June delivery exceeded 4,000 yuan, and at one time, the spot price soared beyond 3,600 yuan. The market situation began to change toward the end of February. Prices began to fall; the spot market price stalled, dropping 100-200 yuan compared to January's high and tumbling to around 3,450 yuan a ton. After falling sharply for more than two months, currently, the spot price of 6.5 mm wire rod is around 3,300-3,400 yuan; medium-to-long-term contract prices are generally under 3,200 yuan. In April, the market price of steel has fallen 0.5 percent compared to the beginning of the year and 4.5 percent compared to the same period of last year. (2) Prices of building materials are stable. April prices were 5.5 percent lower than at the beginning of the year. In particular, ordinary cement price has fallen 6.2 percent since the beginning of the year. (3) Prices of fuel and coal have been fluctuating. Prices rose at first, but as stockpiles grew, prices slipped. April prices were at par with that at the beginning of the year, and currently, bituminous coal sells for about 220 yuan a ton; anthracite sells for about 240 yuan a ton. The prices of oil products had been more stable prior to April, but went up in May when the state adjusted prices. (4) March 10 marked the end of one set of prices and the beginning of another for nonferrous metals. Prices were generally higher prior to that date and leveled off thereafter. Prices were 3.2 percent lower this April than last, but the prices of some product categories have risen again recently. Specifically, aluminum price was 1.3 percent higher in April than in March and continued to rise in May. Aluminum sold for 14,600 yuan a ton in the Guangzhou market on May 12. (5) Some chemical product prices have been rising while others have been falling. This April's prices were 7.8 percent higher than last April's. Specifically, caustic soda was 3.9 percent higher and rubber went up 12.3 percent. Recently, sulfuric acid, hydrochloric acid, polypropylene prices have fallen somewhat. (6) The lumber market has been stable. In February, the price of fir logs rose substantially, and lumber and lumber-product prices were 15.7 percent higher this April than

last. (7) Machinery and electrical product prices are stable with slight declines. In April, prices of trucks and small sedans, in particular, remained unchanged compared to the beginning of the year and have fallen 1.0 percent and 3.5 percent, respectively, since April of last year.

Three, overstocking is a fairly prominent problem for some types of products. So far this year, coal, refined oil, and steel have had stockpile problems. In some localities, the problem has been so serious that rail transport, which has always been in short supply, did something unusual: It took the initiative to ask the coal and mineral supply units to increase shipment so that it can complete its transport duties. Today, the steel stockpile is fairly large. Statistics show that at the end of the first quarter, iron and steel enterprises had 3.50 million tons of steel materials on hand, 81,000 tons more than at the beginning of the year. Society as a whole has 28 million tons of steel, and the stockpile is still growing.

Four, import and export situations vary with the products, but things are basically normal; however, some types of products have a poor mix of goods, and the import momentum is still running strong. Customs data on the import of important goods and materials in the first quarter of this year showed increases, except for copper, aluminum, and raw log imports which declined; steel prices [as published] basically remained at last year's level; raw iron, crude, and cement imports increased more than 90 percent, and copper materials, sulfuric acid; and soda ash imports increased about 50 percent. Situations regarding the export of important goods and materials have improved, except for caustic soda and soda ash and rubber and other chemical products. Steel materials, aluminum, lead, and zinc exports have increased more than 50 percent. Steel imports were more problematic. In the first quarter of this year, we imported 4.23 million tons of steel, 220,000 tons, or 5.4 percent, more than in the same period of last year. The import momentum did not slow in April when we continued to import another 1.98 million tons and more. Moreover, we have been importing a poor mix of products. In particular, we imported large amounts of steel sections, medium-thick plates, hot-rolled plates, and wire rods, which we had an abundant supply of at home.

II.

Currently, supply and demand in the capital goods markets have eased and price increases have slowed. This is due mainly to the following:

1. Production of important goods and materials has increase steadily, providing a firm material base for increasing effective supply in the capital goods market. Between January and April, the nation produced 30.87 million tons of steel, 2.14 million tons, or 7.46 percent, more than last year in the same period. Adding the 6.21 million tons of imported steel and 6 to 8 million tons of usable reserves from the beginning of the year, total

supply has increased significantly. In the first quarter, the nation produced 247.48 million tons of raw coal, a 2.7 percent increase. This included 112.95 million tons from key state-owned mines, a 0.9 percent increase. Production of 10 types of nonferrous metals increased 9.5 percent, including 330,000 tons of aluminum, a 14.2 percent increase. Cement production came to 81.49 million tons, a 12.7 percent increase. Lumber production came to 13.11 million cubic meters, a 2.3 percent increase. Output of most other product categories also increased by varying amounts. Adding imports and exports and usable reserves, the supply of most capital goods has increased this year, and this has provided the basis for balancing market supply and demand.

2. The state's measures to tightly control the scope of society's fixed asset investment have produced results. Excess increase in fixed asset investments has been put under control to some extent, and industrial growth has been kept at a fairly normal rate, curbing the excess increase in the demand for capital goods. Cumulatively, between January and April, the nation's industrial added value increased 16.4 percent over the same period last year; the rate of increase has been fairly steady. In particular, because of stronger macro control over fixed asset investments, the tight control over new projects and the scope of bank loans, and because investments have been put under close scrutiny, the rate of increase in fixed asset investments has dropped. Cumulatively, between January and April, state-owned units' investments grew 38.4 percent over last year's during the same period; the magnitude of increase was 30.5 percentage points below last year's during the same period. Since putting the investment scope under control, the demand for capital goods has been steady and prices have remained fairly stable.

3. Enterprises' fund supply is tight, and defaulting has become a serious problem, affecting the purchases and sales of capital goods and prompting market prices to fall. Since the beginning of this year, enterprise defaults have been a problem. Circulating funds are in short supply, and this has hindered the normal purchase and sales of enterprises in the goods and materials business. Enterprises that utilize raw materials are unwilling to stock up, and production enterprises are lowering prices to make sales or dumping their goods in order to recover funds; some iron and steel producing enterprises are even offering all kinds of discounts to promote sales.

4. Producers, managers, and consumers of capital goods are affected by changing expectations. Around New Year's, people had very high expectations of this year's economic growth and investment scope; anticipation of inflation also ran high. Led by the goods and materials markets in the economically well-developed regions in the south and along the coast, there have been signs of increased demand and brisk sales and purchases which gave impetus to short-term activities in the nation's goods and materials markets. But when the state further made clear its intention to continue to strengthen macro

regulation and control and adopted appropriate measures, people's expectations changed. In particular, when news came out that the state would put the futures market in order and strengthen its control over steel materials and refined oil prices, both the management enterprises and the user-units began to take a wait-and-see attitude and hesitated about stocking up. As a result, the production enterprises' and management enterprises' stockpiles increased. At the same time, venture capital activities have been curtailed; speculations in the circulation section have also been reduced.

5. The state's measures to strengthen price regulation and control are gradually put into place. To slow the excess increase in prices and guarantee the sustained, speedy, and healthy development of the national economy and the successful introduction of various major reform measures this year, the state has adopted numerous measures to stabilize market prices. For example, it has promulgated the "Regulation Requiring Clearly Marked Prices for Goods and Services" and its detailed rules of implementation; it has reformed the crude oil, natural gas, and refined oil circulation system and strengthened the control over their factory-exit, wholesale, and retail prices and reduced expenditures in the intermediate links; it has implemented a guidance price system for major types of steel materials; it has put the futures markets for steel materials and coal in order and halted the futures trade on steel materials, coal, and edible sugar and other commodities; it has also launched a major nationwide price-check. The implementation of the above measures not only has created a great climate for curbing inflation but has also curbed the speculative reselling and repurchasing of capital goods and has played a positive role in prompting prices to level off.

6. The mix of some types of products is bad, and control over import and export is ineffective. For example, the overall supply and demand for cement are basically balanced, but the production of coarse cement, special-grade cement, and high-quality cement still lags behind, and supply falls short of demand. Meanwhile, the demand of ordinary cement is limited, and prices are going nowhere. For various reasons, the import of steel is still uncontrolled, and originally, it was planned that 10 million tons of steel materials would be imported this year, but 6.21 million tons have already been imported between January and April of this year, and the imports have been of a poor mix. According to relevant data, six Japanese manufacturers, including the New Nippon Steel Manufacturing Company, exported as much as 3.91 million tons of eight ordinary types of steel materials to China in the first half of 1993; their exports were reduced to 1.09 million tons in the second half of the year, but in the first five months prior to shipment in June of this year, they exported another 1.36 million tons of steel materials to China, which again exceeded the level shipped in the latter half of last year. Disregarding the nation's changing needs and importing massively in a reckless fashion has produced a large stockpile of steel materials.

III.

How should we deal with the problem of falling market prices of capital goods? We believe that attention should be paid to the following:

First, in the process of developing a socialist market economy, a certain amount of price fluctuation in the capital goods market is inevitable. Currently, the prices of most capital goods have been decontrolled, and price changes are determined primarily by market supply and demand. Supply and demand relations are constantly changing, and prices also fluctuate accordingly. The supply-demand and price fluctuations of capital goods are closely tied to the economic cycles, the direction and force of the state's macroregulation and control, the maturity of the market, fluctuations in international market prices, and changes in the prices of inputs and so on. So long as prices are not skyrocketing or plunging, we should consider them normal and need not be surprised or alarmed, even less should we panic.

Second, the magnitude of increase in the market prices of capital goods has leveled off so far this year, but this does not mean that the factors pushing prices higher have been resolved; it only means that at this stage, excess demand which had been pulling up capital goods prices has to a certain extent been curbed. In fact, there are many factors contributing to higher capital goods prices, and the main factors are: the substantial cost increases—such as high electricity price; the substantial increase in the prices of land, funds, labor, and other important factors of production; tax reform, which has increased the tax burden of some products; the merging of the exchange rate tracks, which has increased the cost of imports. In addition, the confusion in the circulation sector is still basically unresolved. When market supply and demand relations change, these factors become the main driving force behind the changing price trends, and they should not be overlooked.

Third, the leveling off of the market prices of capital goods this year is the result of the combined effects of the above factors. But these factors do not produce the same effects, nor do they play an equal role. Among them, the most important factor is the force of the state's macroregulation and control. It not only directly affects the scope of investment and enterprises' fund situation but also affects the producers', managers', and consumers' expectations, which in turn affect supply and demand in the capital goods market. Of course, some of these factors are temporary and have already changed. For example, steel materials are now following guidance prices, and the method of managing refined oil prices has already been announced. People can stop wondering and get rid of their wait-and-see attitude.

Lastly, overall, the leveling off of the market prices of capital goods is an indication that the state's macro regulation and control measures are producing initial results. This will play a positive role in curbing inflation, especially in prompting the retail price index to level off

in the future. However, we should also be aware of the problems this may bring. Primarily, some production enterprises have serious problems with their stockpiles, and the state-owned goods and materials enterprises are facing many problems. We should actively resolve these problems to prevent severe price volatility and sustain the economy's healthy development.

People have different ideas about the future price trends of capital goods. One view is that prices will slip even further, and given that the state will continue to maintain today's force of macro regulation and control, demand will not go back up in the second quarter or in the second half of the year, and the overall price level will continue to decline and will be lower than last year's during the same period. There may be some market weaknesses. Another viewpoint is that because of the cost-push effect, there is not much room for prices to continue their fall. Because the national economy is maintaining a fairly high rate of growth, some key state construction projects must continue, and market demand for goods and materials has already recovered, and the sluggish market sales situation has already improved, and as a result, prices may rebound in the second half of the year, and adding the fairly sharp drop in market prices of capital goods in the latter part of last year, the magnitude of increase may be higher this year during the same period, but it is unlikely that prices will skyrocket.

In our opinion, the capital goods market and price trends will be determined by the direction and force and result of the state's macroregulation and control policies. For some time to come, the state will continue to strengthen macroregulation and control and will tightly control the investment and credit scopes to maintain basic supply-demand equilibrium. Therefore, the market prices of capital goods may continue to slip in the second quarter, but market demand will rebound in the second half of the year, and prices will stabilize or may even increase somewhat, but there will not be a sharp increase. Overall, the magnitude of increase in capital goods market prices this year is certain to be smaller than last year's.

Our forecast of the price trends of the major capital goods is as follows: (i) Steel: Recently the state has set guidance prices for some product categories, but in the near-term, they will have little effect on the steel market and on their prices. In the future, the steel market price trend will to a large extent be determined by the force and result of the state's regulation and control of steel imports. If the huge import momentum can be curbed, prices may slip somewhat in the near-term but will stabilize in the second half of this year and may even rebound a little. The price of steel materials for production rather than for construction is more likely to rebound this year. The prices of certain types of products, such as high-quality steel and imported cold-rolled transformer silicon steel plates, may rise more sharply than others. Overall, because of abundant supply, basic

supply-demand equilibrium, and relatively stable consumer expectations, and adding the state's implementation of guidance prices for product categories with higher production and sales volumes, the steel market will not be too volatile this year. (ii) Nonferrous metals: Prices may rise or fall depending on the types of products. Copper and aluminum stockpiles are low, and international markets are anticipating higher prices, and so there may be a slight price increase amid the stability. Most other product categories will be fairly stable. (iii) Coal: Affected by higher production cost and transportation fees, prices will stabilize and may rise somewhat in the second half of this year. (iv) Cement: ordinary cement prices may fall slightly amid basic stability. There is greater demand for coarse cement, special-grade cement, and high-quality cement, and their prices will be higher. (v) Chemical products: Supply-demand will remain stable; there is stagnation amid inflation as some prices go up while others go down. Rubber, glycerine, and other prices are expected to rise, while the prices of caustic soda, soda ash, and plastics and other staple chemical products will remain relatively stable. Any price increase or price drop will be of limited scope; there will not be severe price fluctuations. (vi) Lumber: because there will be no significant increase in domestic production, and international sources are limited, prices will rise slightly while remaining steady in the future. (vii) Machinery and electrical equipment: auto supply is abundant and tariffs have been lowered; competition is intense, and prices are not expected to increase by much.

Historical data show that when the economy overheats, the price increase in capital goods will always precede that of consumer goods, and upon strengthening macro regulation and control and applying a proper amount of tightening, the prices of capital goods are also the first to come down. Currently, the leveling off of the rate of increase in the market prices of capital goods is an indication that the State Council's macroregulation and control measures to curb inflation have produced initial results. Today, curbing inflation is still the most urgent task. We must not fall short of success for lack of a final effort and let inflation flare up again. Meanwhile, we should also adjust the force and direction of macroregulation and control measures to avoid stagflation.

IV.

Today's capital goods market and price situations call for the state to come up with new regulation and control measures, and they also provide a new opportunity for setting up a new regulation and control system and for exploring new management methods. Curbing serious inflation is still the top macroregulation and control priority. To do a good job regulating and controlling the capital goods market, we must handle the relationship among reform, stability, and development properly. We should facilitate the further curbing of inflation but also maintain a fairly high rate of economic development, and at the same time, we should seize the opportunity provided by the relatively stable market to accelerate the

exploration and establishment of an appropriate capital goods market regulation and control system that meets the needs of the socialist market economic system. In this regard, we have the following suggestions:

1. We should continue to tightly control society's scope of fixed asset investments, especially the banks' fixed asset investment loans which often act as the "flood gate." This year's price situation is still grim, and we still have an arduous task in strengthening the macro regulation and control measures. Under the current investment system, any easing of control over investments and credit will cause the scope of basic construction to greatly exceed the planned limits, and then it will be difficult to achieve our goal of curbing inflation. Thus, we must continue to control the launching of new projects and resolutely reduce the scale or halt some construction projects, especially the construction of up-scale office buildings, luxury hotels, villas, and expensive recreational facilities. We must continue to rectify financial order and curtail reckless short-term borrowing, and at the same time, we must find effective ways to stop reckless fund gathering to prevent the bubble economy from returning, so as to lay the foundation for curbing serious inflation.

2. We should implement the guiding principle of "limiting production, reducing stockpile, and promoting sales," solve enterprises' default problem, readjust the product-mix, and enliven production and circulation. Today, some capital goods are facing the problems of stockpiling, poor circulation, and lack of circulating funds; some trades and industries are encountering problems of excess productive capacity, poor sales, poor internal management, funds being taken up by finished products, and serious defaults among enterprises. In view of the fact that enterprises are facing increasing problems, we should learn from the experiences of 1988 and 1989, and while we put proper force on macroregulation and control to continue to curb inflation, we should take care to prevent economic recession, market slump, high unemployment rate, and stagflation. Thus, we must work hard to "limit production, reduce stockpile, and promote sales" and adjust the product-mix according to the principle of "increasing the production of hot-selling products, limiting the production of goods whose sales are flat, and stopping the production of goods that are not selling at all," so as to regulate and control production, sales, and stockpiles. While we continue to tightly control the scale of fixed asset investments, we should ease the money supply, especially circulating fund loans, in a timely and appropriate fashion. Banks should fully support enterprises whose products are selling well, who are able to pay back their loans, and who are engaging in effective production. Through these measures, we can enliven the circulation of goods and materials and solve enterprises' problems and keep the prices of capital goods from slipping further.

3. We should strengthen state regulation and control of the import and export of important capital goods. In the

wake of the merging of exchange rates, the restructuring of the foreign trades system, and the acceleration of our "return to GATT," international markets will have greater impact on the domestic market. Therefore, regulating and controlling the import and export of important capital goods are critical to the stability of the steel materials and other capital goods markets and prices. We must understand the international market situation of major capital goods, analyze international market price trends, forecast import prices, and make international market prices a key reference in controlling domestic prices. At the same time, import and export should not be allowed to go unregulated. We must adopt measures to strengthen control and prevent reckless importing. We should actively open up export channels and encourage the exporting of goods which we have an abundant supply of. Our immediate concern should be to resolve the problem of reckless importing of steel materials.

4. We should set up a system of letting the state place orders for important capital goods such as steel materials needed in state-funded projects. In 1993, state-owned units were responsible for 832.1 billion yuan, or more than 70 percent, of the 1.1829 trillion yuan of fixed asset investments. State-funded projects make up the bulk of market demand for capital goods. Setting up a system whereby the state places orders for important capital goods, such as steel materials used in state-funded projects, will allow the state to seize the initiative in regulating and controlling those goods. Because the state can place large orders, and adding its unique status, it can generally wield more influence and give expression to the intent of state regulation and control. In this way, we not only can guarantee the supply of raw materials needed in state-funded projects but can influence the price level and prevent the units from fighting over the resources when they are scarce and refusing to stock up when supplies are abundant, and we can link supply and demand more effectively.

5. We should set up a critical capital goods reserve system and a price stabilizing fund. Setting up a reserve and a price regulation and control fund is a tangible means for the state to control the market prices of goods and materials. The reserve system can be made up of state reserves and enterprise reserves. The state should build warehouses or designate some large goods and materials circulating enterprises to build warehouses for the state's reserve. A minimum reserve should be guaranteed in order to regulate market supply and demand. When there is excess supply, the state should make purchases as reserve. When demand exceeds supply, it should promptly sell off its reserve to stabilize prices. At the same time, we should set up the corresponding price stabilizing fund to guarantee funding for purchases and pay expenses for the reserve. Money for the fund can be raised from several sources, and the state can allocate a portion as special fund. Enterprise reserve should be guaranteed primarily by requiring enterprises to maintain a circulating stock. We can first set up experimental

points for steel materials and coal and popularize the practice after we have gained some experience.

6. We should standardize the futures and wholesale markets. The normal functioning of the futures and wholesale markets plays an important role in guaranteeing market and price stability. But today's markets are disorderly: market risk control mechanisms are inadequate; market entities' qualifications are not checked; the mix of market entities is improper; transactions are not disciplines, and there is no standard on how the markets should function. Given today's inadequate laws and regulations and lack of professional personnel, the reckless development of the futures market has upset the normal economic order in the circulation sector, producing the abnormal phenomenon of pseudo price increases in some products, and making market prices more volatile. Therefore, we must sort out and rectify various types of futures markets and wholesale markets and promptly formulate the pertinent market exchange laws and regulations to make market transactions more open and guarantee fair exchange and promote the market's healthy development.

7. We should set up and improve society's price coordinating mechanisms for important means of production. Reckless competition and monopolistic pricing are problems not to be ignored in some capital goods markets. They were prominent problems in past periods of price fluctuations. The relevant departments and many enterprises have already acknowledged the necessity of regulating prices. The Ministry of Metallurgy set up a Metallurgical Industry Price Coordinating Commission last year, and it has already gone to work. In the future, its scope of coordination should be further expanded to regulate procedures, coordinate the price levels regularly, and in particular, when market prices fluctuate, it should promptly discuss and set prices to prevent severe price fluctuations, so that it can truly play a role in promoting enterprises' self-management and the industry's self-discipline, in improving communications and the exchange of information, and in coordinating market and pricing activities. Other important capital good industries should also set up price coordinating organizations. Of course, we should also explore ways for the state to guide the industrial price coordinating organizations and prevent people from using industry-wide price coordination as excuse to engage in price fixing and other monopolistic behavior.

8. We should set up a stable industrial association and coordinating system. One, with respect to the lineup of industries, coordinated price relations should be forged between the major capital goods and their inputs and the downstream products. We can consider pegging the prices to the corresponding indices and let the relevant departments issue the reference prices which act as a market price guideline. Two, with respect to market circulation, enterprises should strive to open up and reinforce product sales channels and set up a stable supply-demand relationship. A cooperative relationship

should be forged with important and long-term customers of staple products and special-purpose products. We should adhere to the principle of sharing the risks as well as the benefits and try to sign the longest contracts possible to maintain relative price stability.

9. We should make good use of market supply and demand and price information to guide prices. The relevant departments should rely on market supply-demand forecasts and promptly release information on the market prices of important capital goods and news of important economic policies to be introduced by the state, so that enterprises understand market price trends and take the initiative to adjust production according to economic trends, and in particular, they can readjust the product-mix to produce more of the goods that are selling well and are in short supply in the market. We must pay attention to the collection and analyses of international market price trends.

10. We should utilize legal means to crack down on profiteering and unfair competition. It is estimated that nationwide, there are 300 billion yuan in venture capital and 30 billion yuan in floating capital which are waiting for a chance to stir up trouble in the real estate market and the futures market. Steel market and other important capital goods markets are also hot grounds for their activities. Some units and individuals are using all sorts of improper means to engage in reselling and repurchasing to reap exorbitant profits and exacerbate the fluctuations in the capital goods market and prices. Therefore, we should formulate laws and regulations against profiteering and curb reselling and repurchasing activities that seek exorbitant profits.

11. If necessary, we should utilize administrative measures to intervene. Currently, for steel materials and other goods implementing guidance prices, we must supervise and check closely to ensure compliance. At the same time, we should readjust the guidance prices promptly as market situations change, so that they can truly play a role in preventing excess price fluctuations.

12. We should strengthen guidance over enterprise price management. Price decontrol makes its imperative that enterprises strengthen their internal price management and make price-setting decisions even more scientific. Thus, the commodities pricing departments and industrial management departments must pay close attention to guiding enterprises' price management and help them set up and improve their internal price management systems, do a good job with market studies, utilize prices as a lever when competing in the market, and overcome reckless and shortsighted pricing behavior, so as to lay a good microeconomic foundation for keeping capital goods prices relatively stable.

SPC Researchers Analyze Current Economy
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Planning Commission's Economics Research Center: "China's Current Economy: Features and Countermeasures"]

[FBIS Translated Text] I. An Analysis of the Features of China's Current Economy

1. Markets: Supply and Demand Are Balanced, But Structural Problems Are Glaring.

For the first half of 1994, our retail consumer goods sales grossed 718.8 billion yuan, up 25.6 percent from the first half of 1993, for a growth rate basically the same as in recent years. Corrected for inflation, this was real growth of 4.8 percent.

As for individual incomes, our urban per capita cost-of-living income [for the first half of 1994] was up 35 percent from the same period in 1993, for real growth of 9.4 percent, while our rural per capita income was up 32.1 percent, for real growth of 13.3 percent.

So while incomes are growing faster, market sales are growing more slowly. But it needs to be noted that market sales have picked up monthly, being up 2.1 points in May over April.

Our market supply and demand are balanced, with sales growing slowly and prices stable but in a declining trend, for which the causes are as follows:

- Commodity supply and demand are balanced. A domestic trade sector spokesman notes that when ranking the supply and demand of 726 commodities, 11.6 percent do not meet demand, with 58.7 percent being basically balanced, and 29.7 percent exceeding demand.
- Public inflation expectations are down. As 1994 price increases have declined monthly, being moderate when excluding the impact of price reform and the tails factor, and growing equal to or less than individual income growth, public inflation expectations are lower, with consumers' purchasing behavior tending to be more rational and normal. There is no more buying of commodities as a hedge against inflation.
- Market consumption remains in a transition period. Our third wave of consumption fever and hot-selling commodities has been slow in coming, with older commodities still playing the key role in market sales. While certain hot-selling commodities have come onto markets, with production already exceeding demand for the "air-conditioning fever" that has been rising in recent years, other consumption hotspots beginning at 10,000 yuan have not yet genuinely evolved. As our household income gap is widening and growing, our expected third wave of consumption fever and new round of hot-selling commodities, which analysis shows will be ones, such as minicars, health products, and telephones, will come to our markets gradually.

after postponement. But even when it comes, it will not be a repeat of the consumption scene of the 1980s.

2. Inflation: The Trend Is Toward a Phase of Relative Stability.

Our national retail price growth is declining in small steps monthly. In contrast to the same months in 1993, it was 19 percent for January, 20.9 percent for February, 20.2 percent for March, 19.5 percent for April, and 18.7 percent for May. But while it was 2.2 points lower for May than for February, it remains at a quite high level. Our capital goods market is stable. Taking the beginning of 1993 as the base, our staple commodity prices are back down sharply, basically equal to the beginning of 1994. This includes price rises of over 10 percent for refined oil, soft coal, coke, cold-rolled silicon steel sheets, copper, and aluminum, and between -4 percent and -4 [sic] percent for all other varieties. Since inflation is relatively stable, final market sales of consumer goods are growing, with real growth of 5 percent for January and February, 4.2 percent for the first quarter, 4 percent for April, and 6.1 percent for May, 2.1 points higher than for April. It is predicted that this slight sales growth momentum will continue.

Our price trend for 1994 is characterized by prices rising less for capital goods than for consumer goods. The inflation caused by an excessive money supply in the two years of 1992 and 1993 has already been assimilated by price rises, with cost-driven inflation energy to finish being released very quickly. And as the "tails" factor disappears, all of this will contribute to a relatively stable price trend in 1994. In consideration of the raise in grain purchasing prices in June, as well as no new price reform steps to be taken in the last half of 1994, relative price stability means that we will see a high price level. But we hold that as long as we basically maintain the current moderate degree of macroeconomic regulation and control, our consumer goods prices will come down by the first half of 1995.

3. Investment: Resources Are in Relative Surplus, While Demand Is Slightly Inadequate.

For the first half of 1994, our fixed assets investment was up 25.2 percent to 450.5 billion yuan, with gross supply up 38.9 percent and gross demand up 34.4 percent, leaving supply to exceed demand by 4.5 points, and state unit investment at 308.1 billion yuan, up 37.5 percent, but back down 32.5 points from its growth for the first half of 1993. Our growth is approaching a normal level, with the prediction being that we will maintain the current growth rate for the second half of 1994.

As gross supply is up, with our investment demand growth rate down, our overall supply and demand is basically balanced, or supply is slightly larger than demand. From an analysis of our overall investment situation, we hold that our slightly lower investment growth is an indication that our investment demand is slightly inadequate.

1. While our planned 1994 investment is 1.3 trillion yuan, our real fixed assets investment for the first half was 450.5 billion yuan, less than 40 percent of the annual plan. 2. While our fixed assets investment is up 25.2 percent, it is up 35.8 points less than for the same period [the first half] of 1993. Excluding state-unit investment, our nonstate-unit investment was 142.4 billion yuan [for the first half of 1994], up 7.2 billion yuan, or 5.3 percent, from the first half of 1993. 3. Our fund-arrival rate is low. While it has reached 50 percent for state priority construction, it is only 30 percent for local self-financed projects. 4. Analysis of our completed material workload shows that impacted by strict control of investment demand in 1994, capital goods prices have dropped sharply, with our capital goods price index down from 15.3 percent for January to -6.2 percent by June, and our investment goods price index for the first half at 1.6 percent, while our state-unit investment was 308.1 billion yuan, up 37.5 percent, for a completed material workload of 35.7 percent.

If we then take a separate look at our resource supply and foreign investment, the situation becomes even clearer.

Our raw materials and resource production is growing steadily, with gross resources picking up, to make supply larger than demand. For instance, rolled steel sales are poor, with inventories exploding to 4.08 tons by the end of May, up 1.48 million tons from the beginning of the year, and up 191 percent from the same time in 1993, and with user enterprises having turned back 1.55 million tons of orders. Inventories are up more than 20 percent for other goods, such as crude, motor vehicles, machinery and electronic products, and some industrial chemicals. By the end of May, finished products were tying up 364.4 billion yuan, 40 billion yuan more than at the end of February. Meanwhile, our industrial production-sales rate was 92.51 percent, lower than its level for the first half of 1993. This rise in funds tied up in finished products and lower production-sales rate shows that undesirable investment is growing.

Foreign investment is down. For the first half of 1994, our number of approved foreign-invested projects was down 181.82 million from the first half of 1993, with the agreed investment down \$14.3 billion from the first half of 1993. This is the key reason why our nonstate-unit investment is growing so slowly.

We hold that signs, such as idle resources, supply overfilling demand, the declining capital goods price index, the fallback in foreign investment, exports growing faster than imports, increased foreign exchange reserves, the RMB exchange rate rising little but steadily, and our too low growth of nonstate-unit investment, show that our domestic fixed assets investment demand is slightly inadequate. This matter needs full attention.

4. Finance and Banking: The Macroeconomic and Microeconomic Impression Differs.

Our tax revenue is synchronized with our economic growth, up 32.1 percent for January and February, 23.5

percent for April, and 33.7 percent for May. It needs to be noted that after deducting the part of industrial and commercial tax revenue returned to localities, by the end of May, Central revenues were up 18.1 percent, synchronized with or slightly higher than our economic growth, while local revenues were up 32.1 percent, certainly not growing less due to Central revenues being up. Meanwhile, industrial and commercial tax revenue for the first five months of 1994 was up 31.9 percent, with Central revenues up 37 percent from the first 5 months of 1993, making up 59.8 percent of all revenues, or five points higher than for the first four months. This has reversed our years of declining central revenues, showing that tax reform has begun to succeed. But while successful financial reform is making it possible for finance to play its proper role in macroeconomic regulation and control, it is leaving some enterprises with a sense of too much time on their hands.

A conflict in our current banking operations is that on one hand, as enterprise deposits have grown considerably to reach 183.9 billion yuan, the fund shortage should have been alleviated somewhat; on the other, the fund shortage has not eased. This is caused by too little fund liquidity, with quite severe fund tie-ups and loophole losses. This is also related to our financial regulation and control form and dynamic. For instance, too much restriction of interbank lateral lending and sale of enterprise bonds overconcentrates individual savings in banks, limiting capital flow and money market development.

II. Several Possible Policy Options

After making this analysis, we hold that our current macroeconomy is in a delicate state. The knowledge that we acquire from various information data is often conflicting, leaving us with a very narrow scope of regulation and control options. Our macroeconomic regulatory operations need to be very cautious, with our macroeconomic regulation and control for the last half of 1994 having three possible operating-plan options.

—As our retail commodity sales prices were up 18.7 percent for May, still too high, and our investment growth was also above 34.2 percent, we could continue to tighten our macroeconomic regulation and control. This would include strict control of our fixed assets investment growth, and rigorous financial oversight, to ensure that funds concentrated in our banking system evolve internal circulation, in an attempt to control our investment growth at 30 percent. This would result in investment for the last half falling back four points, retail prices declining steadily, and our capital goods price index falling faster, to achieve by the fourth quarter our regulation and control targets of economic growth at 9 percent and price rises at 10 percent. But by 1995, our inadequate investment demand to the point of a market slump would become a reality, with our economy also fluctuating at a low

level, which would have an adverse impact on our overall economic development.

—We could ease our macroeconomic regulation and control. As our investment growth fallback has been lower monthly since April, with prices remaining high, this option would result in our fixed assets investment getting back into high gear, prices going from their current quite balanced state into a sharp climb, and our economy becoming "overheated" once again. This would mean that by the last half of 1995 or in 1996, we would have to use even more severe administrative means to "slam the brakes" on our economy, which would similarly have an adverse impact on China's economic development.

—Based on our resource potential for economic growth, we could appropriately improve our macroeconomic regulation and control dynamic, focusing on adjusting our investment structure, to increase effective supply and ease inflationary pressures. Aimed at our current economic growth features, we would need to suitably fine-tune the makeup of our regulation and control measures based on a stable macroeconomic policy. For instance, in our fixed assets investment, investment growth is too low and demand is too little, including nonstate investment growing too little, and investment demand being slightly inadequate. So it appears that we should allow all regions to invest more in projects where predicted market demand prospects are bright. We could also invest more in the "healthy living project" that is aimed at solving the housing problem. This would resolve our conflict of idle resources with slightly inadequate investment while, without touching off high price increases, invigorating our money markets to ease enterprise fund shortages, thus laying a good foundation for economic growth in 1995.

Restructuring Commission's Report on Property Rights

94CE0688A Beijing GUANLI SHIJIE
(MANAGEMENT WORLD) in Chinese No 4, 24 Jul 94
pp 152-156

[Article by Zhang Jiuda (1728 0036 6671), Yang Dexiang (2799 1795 0686), Zhang Xiaowen (1728 2556 2429) and Zhang Haiyu (1728 3189 7625), members of Investigation Group of Research Institute for Economic System and Management under the State Commission for Restructuring the Economy: "Investigation Report on Property Rights Exchange"]

[FBIS Translated Text] Following the deepening of the reform in economic system, particularly with the targets for the development of market economy clearly defined, the property rights business, as an important component part of the market economy, is gaining greater and greater momentum in each passing day. It is for this reason that we had visited Chengdu, Wuhan, Changsha, Zhengzhou and other cities to carry out our investigations.

I. Basic Situation

For the past several years, the government departments in the aforementioned cities had made public some policy-related documents with regard to the merging of enterprises in the course of reforming the economic system and developing the economy. This had effectively helped strengthen the work of enterprise property rights exchange in each city. In order to satisfy the objective requirements in growing property rights business, these areas had successively established in 1991, 1992 and 1993 the Zhengzhou City Property Rights Exchange, the Wuhan City Property Rights Exchange and the Chengdu Property Rights Exchange. At a later date, a property rights exchange center was established in Hunan Province. The establishment of such exchanges (or centers) has indicated that the transfer of property rights has become a part of market operations.

There are two types of system for managing the property rights exchanges in these four districts. One type of the system is placed under the leadership of a committee for organizing and supervising the enterprise property rights business and under the joint management of the provincial and city commissions for restructuring the economy such as the Chengdu Property Rights Exchange. Another type is placed under the joint leadership of the provincial and city commissions for restructuring the economy where the property is located and the administrative department in charge of state properties and under the management of the relevant department responsible for state properties such as the Zhengzhou City Property Rights Exchange and the Hunan Provincial Property Rights Exchange Center.

Most of the property right exchanges are non-profit intermediary organizations. The Chengdu Property Rights Exchange Center implements a membership system. The various property rights exchange brokerage organizations which are willing to abide by the center's regulations and pay the membership fee may apply to become members. The day-to-day operation of the center is the responsibility of the executive committee of the center's board of directors. The center's general manager is the legal representative of the center under which there are 10 departments including the administrative department, the enterprise department, the technical support department, the marketing department, the liquidation department, the propaganda and education department, the training department, the information department, the supervisory department and the security department. The Zhengzhou City Property Rights Exchange Center has set up a comprehensive information department, an appraisal department, a business department and an office for handling idle assets. The Wuhan Property Rights Exchange Center basically has the same establishments as the Zhengzhou City Property Rights Exchange Center with three departments and one office—a service department for the merging of enterprises, a service department for handling dormant state-owned assets, a department for the

sale and auction of small enterprises and a general office. The center's general manager assumes the responsible for the center's operation matters.

Right now, the enterprise property rights exchanges are still in their preliminary stage. The scope of business operation of these exchanges mainly include the merging of enterprises, the handling of idle equipment and the auction of small enterprises. Most of the business transactions are based on contracts. Some of transactions are also made in the form of auction, rental or trusteeship.

According to surveys conducted over property rights exchanges in Wuhan, Chengdu, Changsha and Zhengzhou, transactions concerning the amalgamation of 414 pairs of enterprises with their total assets valued at 681 million yuan were completed. As many as 98,515 workers were helped to find jobs and 24,680 retired workers were provided means of subsistence. Only the Wuhan City Property Rights Exchange Center alone has put to good use land with a total area of 446,100 square meters, buildings with a total floor space of 302,400 square meters and over 900 sets of idle equipment valued at over 20 million yuan.

When we were attending the "Fifth National Annual Meeting of Information Network for Enterprise Property Rights Exchanges," the department of production system and the research institute of the State Commission for Restructuring the Economy jointly distributed "Simplified Statistical Tables on Enterprise Property Rights Exchange in Cities or Provinces" in order to help us understand the overall situation in handling transactions of enterprise property rights. As of now, statistical tables from 12 districts (including Hunan, Anhui, Jiangxi, Chengdu, Wuhan, Harbin, Nanjing, Xuzhou, Dalian, Taiyuan, Zhengzhou and Shenyang) were retrieved. Statistics showed that as of the end of 1993, 1,696 pairs of enterprises were merged; 62 enterprises sold; 26 bankrupt enterprises auctioned off; 3,328,026,000 yuan's worth of stock assets transferred; 384,092 workers relocated. A total of 927 enterprises suffered losses totaling 678,033,500 yuan, and owed 2,636 million yuan. Their cases were being handled and they were helped to reduce their deficits.

The initial practice in promoting enterprise property rights business in various localities indicates that the opening of such property rights markets has effectively helped the allocation of resources, the adjustment of the economic structure, the circulation of assets and the technical innovations of the enterprises. It has also played an active role in helping enterprises change the way they operate and maintaining social stability.

II. Forms of Operation

Various property rights exchange centers have worked out measures to manage their businesses and the basic forms of operation in promoting property rights transactions. Due to the fact that the state has not yet worked out an unified method in this connection, the centers

themselves differ in ideas and forms of operation in terms of contents and scope in handling transactions and performing the functions of a particular exchange center.

1. Differences in contents, scope, forms and equity ownership.

There are differences in interpreting the connotative meaning about property rights exchanges. The Hunan Provincial Property Rights Exchange Center stipulates that the exchange of property rights means compensatory transference of an enterprise's equity ownership (including stock ownership) and its management right. However, the Wuhan Property Rights Exchange Center believes that such exchange means the transfer of an enterprise's ownership of assets or the corporate ownership right, either complete or partial.

Basically the four centers act in the same way in the scope of property rights business. That is, all of them permit inter-professional and inter-regional operations. Transactions are also permitted between enterprises of different ownership systems. Transactors may be state-owned enterprises, collective enterprises, Sino-foreign joint ventures, cooperative and exclusively foreign-funded enterprises, shareholding enterprises, enterprises abroad, private enterprises and others. They may also be enterprises in partnerships or individuals who are capable of assuming civil responsibilities.

Among the four centers there exist greater differences in the form of doing the property rights business. Their common point is that business is usually done in the form of agreement, bidding and auction in selling property rights. In buying property rights, they use the form of offering financial contribution, the form of assuming liabilities or the form of purchasing stock rights and other forms which are agreed upon by both sides including amalgamation, sale or auction. The Hunan Provincial Property Rights Exchange Center also lists the offer for sale and trusteeship as a form for the transfer of property rights. It takes the lead in developing business in placing enterprises under trusteeship. That is, under the prerequisite of keeping the ownership intact and insuring that the value of the assets be preserved and increased, the exchange center sends out managerial personnel to and pours appropriate funds into the enterprise placed under trusteeship, while it (or the trustee unit) exercises the right to manage and control the enterprise and distribute the earnings. The Chengdu Property Rights Exchange Center stipulates that its forms for property right exchanges include contracting and mortgage in addition to merging, auction and rental. Meanwhile it also includes the form of splitting property rights for transaction. That is to split the entire property rights into basic property rights units and sell each unit separately.

The four exchange centers basically adopt the same operational procedure in transferring property rights exchanges as follows:

1. The selling enterprise must submit an application to sell its property rights. After the application is examined and approved by the institution which represents the property owner, the enterprise may post signs on the market for sale. The selling party must present the legal documents showing its ownership of the property for sale and the documents of approval from the institution which represents the property owner. The prospective buyer must also show relevant documents, particularly a certificate to demonstrate his or her creditability.

2. The property must be assessed. The state-owned property listed on the market must, first of all, be assessed by a qualified assessment institution and verified and confirmed by a state property administrative department in order to insure that none of the state properties is lost.

3. The transaction is considered complete after the contract is signed and payment made.

4. After the completion of the transaction, it is necessary to register such transaction with the property rights exchange center and go through the procedure of changing the ownership. There are some differences among various centers in the transfer of property rights. The Hunan Property Rights Exchange Center hires brokers (or called dealers) for this purpose. They are the ones who are specialized in the transfer of property rights. There are no such dealers specialized in handling property rights business in Chengdu and Wuhan. As for the procedure of examining and approving any transaction for the transfer of property rights, it is generally essential to refer each case to the leading group for the reform of enterprise mechanism for screening, approval and verification. However, Hunan stresses the need to report the floor price and closing cost for any transfer of state-owned property rights to the administrative department in control of state properties for confirmation.

Relations between ownership and management of an enterprise after the transfer of the property rights must be handled in line with the principle of whoever makes investment owns the property. After the exchange of the overall property rights of a legal person of enterprise, the original legal person must be deprived of his or her ownership through a legal procedure. The buyer should register himself or herself once again to form a new legal person of enterprise. Its nature should be determined by the buyer. Proceeds from the sale of property rights belong to the property owner.

2. Nature, organizational form, administrative setup and function of the property rights exchange center are different.

As for the nature of the property rights exchange centers, most of them are non-profit legal persons with the aim to serve the enterprises. Sometimes they are also called legal persons of enterprises.

Their organizational form and structure are also different. All property rights exchange centers in Wuhan,

Hunan, Zhengzhou and other provinces and cities adopt a unitary form of organizational structure established by a certain government department and approved by the government. The Chengdu Property Rights Exchange Center adopts a membership organizational form, while the centers in Wuhan, Hunan and Zhengzhou adopt the system in which the general manager assumes overall responsibility with several functional departments under his leadership. For example, the center in Wuhan City has "three departments and one general office," while that in Hunan Province has "six departments." The property rights exchange center in Chengdu implements the board of directors system under which there are the general membership meeting, the board of directors and the board's executive committee. The board's executive committee handles the routine duties and implements the system of overall responsibility by the general manager. The executive director of the board assumes the duties of the general manager and the corporate representative of the center.

The functions of various exchange centers are the same in essence while differing in minor points. The exchange centers in Wuhan, Hunan and Chengdu perform the functions of examining and approving the reports; reading and commenting on documents; acting as liaison between buyers and sellers; collecting and distributing information; providing consultations; and coordinating with the relevant departments and the administrative department in charge of the enterprise. In addition to the above-mentioned functions, the Hunan exchange center also performs the function of acting as a trustee for enterprises, while the center in Chengdu has implemented a system under which prices on market transactions are automatically being quoted.

3. Policies in support of property rights exchanges are necessarily the same.

The exchange center in Hunan Province stipulates that all state-owned enterprises must enter the market to sell or buy property rights, while ex-pit transactions are not permitted. The exchange center in Wuhan makes it a rule that enterprises engaged in outside dealings cannot enjoy the city's preferential treatments for property rights exchanges. In the course of transferring property rights, various localities invariably regard the work of relocating workers as an important task and energetically handle such work. For example, when the Wuhan Match Factory was merged into another enterprise, its 600-plus retired workers were given 17,000 yuan each as retirement insurance benefit. Workers who turn down offers to remain in the factory were given 15,000 yuan each for re-training and resettlement. This factory had done a relatively good job in placing its workers and insured social stability. The exchange center in Hunan Province also works out some provisions for the relocation of the workers of the selling enterprise. Various local governments have adopted a series of measures to support the transfer of property rights. Particularly they help stronger enterprises merge or buy weak enterprises. For

example, the city of Wuhan helps enterprises which wish to buy property rights in terms of finances, taxation, land, manpower, industrial and commercial administration and credit so that they may adequately reduce their burdens.

In short, the four cities have common points as well as differences in making property rights exchanges. As for what forms of operations are more practical and conducive to standardizing the procedure of transferring property rights, we still need to get organized and carry out discussions in depth.

III. Major Issues

Enterprise property rights exchanges are something new. Right now there still exist many problems that we need to solve in a hurry. They are as follows:

1. A common understanding has not been reached in making enterprise property rights exchanges. For example, there is a lack of common understanding on the enterprise property rights and the main entities in doing property rights business, on the relations between assets and property rights, on the objects of the property rights business, on the rights and obligations of both parties of the transaction and on inside and outside dealings. As a result, ways in making property rights exchanges are also different.

2. The growth of the market for the transfer of property rights remains retarded. Compared with the commodity market, the means of production market and the financial market, the growth of the market for the transfer of property rights is not only retarded but also unhealthy. The market is far from being widespread, and new relations between ownership and management of enterprises have not been established. Right now, the market is somewhat closed. It is hampered by regional limitations, and there are difficulties in forming a large, unified nation-wide market. It is also restricted by departments and trades. Both sellers and buyers find themselves hard to enter the market. The market growth is unhealthy. Many transactions in the transfer of property rights are disorderly. In many cases, it is difficult to appraise the assets. The ownership of some of the properties is unclear. In some cases, negotiations for the transaction have begun before the property rights are clearly defined. The property rights of some state-owned enterprises are transferred prior to the final approval by the department in charge of the properties, while some shareholding companies have sold their property rights without the approval of the stockholders' meeting. Other enterprises make private dealings and transactions on the basis of human relationship. Transactions are often concluded at random.

3. Policies do not complement each other, while the legal system is not sound. The transfer of enterprise property rights involves the social security system and policies concerning taxation and credit. The fact that policies do not complement each other while law and regulations on

property rights exchanges are not so sound has already prevented the property rights exchanges from being developed healthily. Although various departments concerned have formulated some policies and legal documents, they fail to make such policies and documents a standard procedure for everyone to follow in transferring property rights.

4. The flow of information is sluggish, and transactions are restricted. There is a lack of coordination, and the flow of information is sluggish in transferring property rights. Often buyers cannot locate sellers and vice versa. Due to the unbalanced economic development in various localities, there are more buyers in some areas, while there are more sellers in other districts. Therefore, it is important to know how to facilitate the flow of information in order to promote the enterprise property rights business.

IV. Ten-Point Proposal

To promote property rights business is a matter of necessity in deepening enterprise reform and building a modern enterprise system. Following the establishment of the modern enterprise system, once an enterprise is authorized, both in name and in fact, to handle business of property rights, it would energetically check its inventory of stock assets and try to dispose those assets that can be sold and buy the assets it badly needs. How to help business of property rights develop healthily is an important issue confronting us. In dealing with the existing problems in handling business of enterprise property rights, we like to put forward the following 10-point proposal:

1. First of all, we must pay full attention to studying the theory on property rights. Theory is the guidance for action. We may avoid detours in laying an ideological foundation for expanding the property rights business if we can reach a common understanding through theoretical studies. We propose that the state organize experts and scholars in the fields of economy, theoretical study and propaganda to work together to study the connotative meaning of property rights, enterprise property rights and the enterprise property rights business; to clearly define the legal entity of the property rights of state assets and of the dealers for such property rights and the basic contents of the property rights transaction; to clearly spell out the rights and obligations of the buying and selling parties of the property rights. They must also standardize the form of organization and operation and the procedure to exercise macrocontrol over businessmen who are dealing with enterprise property rights exchanges.

2. We must strengthen our leadership organizationally over the enterprise property rights business. Enterprise property rights business involves not only state-owned enterprises but also enterprises owned by other economic sectors. Some of the transactions may be inter-professional and interregional. They directly affect the

interests of the state, the enterprise and the workers. They are something new in China. Therefore, we must strengthen our leadership organizationally, carry out experiments in several selected locations, and gain some experiences first before we gradually spread them. We must avoid rushing headlong into mass action. It is proposed that the state first set up several regional markets for enterprise property rights business after gaining some experiences in some major cities. When conditions exist, it may then establish a unified national market for the transfer of enterprise property rights. In order to curb illicit activities in buying and selling property rights, various localities must closely follow the relevant regulations newly promulgated by the State Council in establishing exchanges and companies for the transfer of enterprise property rights. Those exchanges which have been set up without the examination and approval of the state should be banned from operating. Those which are already in operation must make up by resubmitting their applications for examination and approval.

3. We must establish a nation-wide information network for enterprise property rights business. The market for enterprise property rights business and the information network for the transfer of enterprise property rights are supplementary and promote each other. Right now, we may selectively set up six to seven or slightly more regional centers for enterprise property rights exchanges in East China, Central South China, North China, Northeast China and Northwest China in connection with the exchange markets in their surrounding areas. We may then form a nation-wide information network on this basis.

4. We must strive to work out the policy, the relevant laws and regulations for the transfer of enterprise property rights. A distinctive characteristic of enterprise property rights exchanges is the fact that there are all types of dealers and forms in doing business of property rights transfer. State-owned assets can be easily lost. In order to healthily develop such business, we must strengthen our leading bodies organizationally and work out unified laws and regulations in order to legalize our work in this connection and standardize the procedure as soon as possible.

5. We must scientifically determine the prices for property rights. In doing business of property rights, we must adhere to the principle of exchange at equal value. In determining the prices for property rights, we must take into consideration factors such as the value of fixed and circulating assets, the value of the enterprise's intangible assets, the anticipated value of the enterprise's assets after its renovation, the value of the enterprise's claimable assets and its liabilities and the amount of pension funds and medical expenses for the retired workers and the expenditure to help relocate the displaced workers and so on. To determine the price of the enterprise property rights, we must use the form of open bidding and auctioning fairly and impartially and resolutely stop

illicit dealings and the practice of favoritism and that of under-rating state-owned assets and of appropriating public properties. To determine the value of enterprise property rights, it is necessary to assess the property rights by a qualified appraising institution. No dealings should be made to buy or sell any unassessed state-owned asset.

6. In dealing with the transfer of enterprise property rights, we must pay full attention to relocating workers as a major event. Prior to the transfer of property rights, the enterprise which sells the property rights, particularly the entire property rights (the enterprise which is to be merged), must firmly carry out ideological work among its workers. In principle, the deal must be discussed and approved by the workers' congress. It is necessary to relocate the workers in the enterprise to be merged based on the principle of assigning jobs to people according to their abilities and of equal pay for equal work and to ensure that each one has a role to play. In dealing with retired workers, it is essential to transfer enough pension and medical insurance funds to the social security organization for uses in this connection. We must use this as a turning point to gradually unload the heavy burden the enterprises have to bear in supporting social undertakings.

7. We must strictly control the amount of money which the selling enterprise gets from the transfer of property rights and put them to good use. Some of the money must be used for social security and the development of production. It should not be used for any other purpose without the prior approval of the relevant institution. The amount of money which a state-owned enterprise gets from the transfer of its property rights should, in principle, be used by a state assets investment company or an enterprise group entrusted by the state—an investment entity for the enterprise property rights. If necessary, it should be turned over to the state treasury to be used by the state planning department to make overall arrangements in adjusting the industrial structure. The amount of money which a collective enterprise gets from the transfer of its property rights should be turned over to the unit in charge of the property rights to make overall arrangements for its use.

8. We must energetically encourage enterprises to deal with their property rights in strict accordance with to the industrial policy of the state. Running water is never stale and a door hinge never gets worm-eaten. The circulation of property rights is conducive to the state, the enterprises and the workers. In the course of transferring enterprise property rights, we must resolutely implement the industrial policy of the state. The state may grant preferential treatments in terms of taxation and credit to those enterprises which produce hi-tech products, export their products to earn foreign exchange for the state and turn out readily marketable commodities after merging with other enterprises. In the course of examining and approving application for the transfer of property rights, the state must also exercise strict control

over those enterprises which turn out products not in conformity with the state industrial policy.

9. We must run enterprise property rights centers as open and orderly markets. Right now and in the near future, we must standardize the procedure in developing enterprise property rights exchanges. In addition, we must also quicken our pace in establishing the intermediary organizations for handling the enterprise property rights business; train qualified brokers to act as go-between in the transfer of property rights; and promote open and fair competitions among the enterprises. Enterprise property rights dealings must be carried out inside the market. Business must be carried out in an orderly and coordinated manner under the guidance and supervision of the proper department. We must resolutely stop illicit activities such as "arranged marriages" and private dealings.

10. We must do a good job in strengthening the social security system. One of the difficult tasks for the transfer of enterprise property rights is to relocate the workers of the selling enterprise. This calls for the establishment and improvement of a new social security system.

Right now, most of enterprises that have been merged or are considering to merge are small or medium-sized ones. The majority of them are enterprises of the "secondary industry" located near the center of large or medium-sized cities. Their geographical location is excellent. Once they become enterprises of the "tertiary industry," they would be able to reap substantial benefits from differential rental income. It is precisely for this reason that the buying enterprise is often willing to pay for the relocation of workers and contribute to the pension funds for the retired workers of the selling enterprise. With the development of business in the transfer of enterprise property rights, there will be less and less enterprises that wish to be merged. In view of the fact that most of the large and medium-sized industrial enterprises are located in the suburbs or outer suburbs of the cities, we must rely firstly on restructuring, secondly on technical progress and thirdly on modernization of management to help state enterprises extricate themselves from their predicament. In restructuring enterprises, there is nothing more difficult than unloading the heavy burden the enterprises have to bear in supporting social undertakings. In this connection, the state has the responsibility to let the government and the social organizations to bear the burden of social undertakings so that workers would be properly provided for after their retirement or any manpower cutback, and the enterprise managers may devote themselves to doing their business and carrying out production. This is an issue that we must be irrevocably determined to tackle in the course of promoting the reform program. This is also an issue that we must tackle in developing the enterprise property rights exchanges.

Bureau Publishes July Economic Statistics
94CE0734A Beijing JINGJI RIBAO in Chinese
17 Aug 94 p 1

[Article by Gong Jiao (7895 8032): "The State Statistics Bureau Releases a Report on Monthly Economic Conditions, Showing National Economic Operations for July To Be Essentially Normal"]

[FBIS Translated Text] A report released on 16 August 1994 by the State Statistics Bureau on national economic operations for July shows that while China's economy operated basically normally in July, the momentum of rising prices remained strong, with investment growth picking up too quickly.

The report holds that our national economic operations for July were characterized as follows:

Industrial production continued to maintain quite fast growth. Our industrial added value for July at the township level and above throughout China was 132 billion yuan, up 15 percent from July 1993 at comparable prices, still too fast. Our industrial added value for the first seven months of 1994 throughout China was 848.8 billion yuan, up 15.7 percent from the same period in 1993. Our product sales rate for July reached 95.24 percent, up 0.29 points from July 1993. Our enterprise economic efficiency continued to improve.

Market sales were quite brisk. Impacted by hot-selling summer commodities, such as air conditioners, electric fans, and cold drinks, our retail consumer goods sales for July grossed 125.2 billion yuan, up 29.9 percent from July 1993, and up a real 7 percent even when corrected for inflation, making for obviously faster growth than in the first half. Our rural markets are growing ever brisker, with gross retail consumer goods sales at the county level and below for the first 7 months of 1994 up 23.7 percent from the same period in 1993, and up 26.3 percent for July.

The financial situation was basically normal. In July, banks and credit cooperatives acquired new deposits of all types worth 92.3 billion yuan, 80.3 billion yuan more than their growth for July 1993, including new enterprise deposits of 22 billion yuan and new urban and rural individual deposits of 56.6 billion yuan, with the two making up 85.2 percent of all new deposits; new loans of all types reached 56 billion yuan, up 34.9 billion yuan. Our imports and exports grew steadily in July, with exports up 35.7 percent from July 1993, and imports up 9.7 percent.

The State Statistics Bureau report noted that the key problems existing in our current economic activities were:

The momentum of rising prices remained strong. The higher and more sustained rises were concentrated mainly in food commodities, with national consumer

prices for the first seven months of 1994 up 22.4 percent from the same period in 1993, and retail commodity prices up 20 percent.

Investment growth picked up too quickly. The fixed assets investment by state units for July 1994 was up 72.9 percent from July 1993, as well as up 29.4 points from June 1994.

The State Statistics Bureau holds that careful regulation and control is needed in the next phase, with emphasis on three areas: 1) We need to stabilize our current macroeconomic regulation and control policy, to keep investment from expanding again or an excessive regulation and control dynamic from impacting our normal economic cycle; 2) We need to be guided by market demand, to push forward with structural adjustment. We need to do a conscientious job of restricting production overstocking and promoting excellence; 3) We need to continue to pursue an active and safe anti-inflationary policy, emphasizing the regulation and control of "food-basket" commodity prices, and strictly investigating and dealing with covert and "passed-on" price rises, to ensure that price rises gradually recede somewhat.

Provincial

Shanghai Mayor Urges Faster Enterprise Reform
94CE0723A Shanghai WEN HUI BAO in Chinese
12 Jul 94 p 1

[Article entitled: "At the Municipal Government Standing Committee Expanded Meeting, Mayor Huang Ju Urges Stepping Up Enterprise Reform in the Second Half of the Year"]

[FBIS Translated Text] At the municipal government's 15th standing committee (expanded) meeting yesterday, Mayor Huang Ju pointed out that the overall guiding principle for the rest of the year is to ascertain the situation, seize the opportunity, and put a proper handle on the relationship between reform, development, and stability. He said we should start out from Shanghai's reality to step up enterprise reform, pinpoint the crucial links in economic construction, adopt even more sturdy and more effective measures, and put the emphasis on improving economic efficiency, so as to maintain the good economic construction momentum and achieve this year's goals of struggle.

The theme of the meeting was to review and sum up what had been accomplished in the first half of the year and thereupon decide on the guiding ideology for the work to be done in the second half of the year and plan the main tasks for the third quarter. Mayor Huang Ju presided over the meeting and made an important speech.

Huang Ju pointed out that in the first half of this year, the municipality made good progress with various tasks, and all main economic indicators "twice surpassed the

half-way mark [shuang guoban]," laying a sound foundation for achieving this year's goals of struggle. Specifically, a) the economy maintained a rapid rate of growth on top of the already high base figure; overall economic efficiency also kept up with the growth rate. In the first half of this year, the municipality's GDP was 90.062 billion yuan, 13.6 percent more than last year's in the same period; the ratio of industrial production to sales topped 96 percent; local revenues grew 33.5 percent. b) New economic growth points underwent rapid development; their structure improved along with their efficiency, playing a crucial role in Shanghai's sustained high rate of economic growth. c) While the scope of development of the externally oriented economy continued to expand, quality also showed improvement. Foreign exports grew 24.5 percent, setting a historical record. The municipality approved some new foreign-funded projects; foreign capital absorption as contracted increased 14.2 percent compared to the same period last year. d) Fixed asset investments were concentrated in key areas; the municipality's major engineering projects proceeded smoothly. e) Pudong's development continued to push on at a fast pace, reflecting the effects of functional development. Various economic indicators continued to lead the rest of the municipality. f) Reform, development, and stability lent momentum and coordination to each other; the municipal economy was able to quickly adjust to the new system after the tax and financial reforms. The relevant municipal departments launched a new round of market-basket projects and began tackling the housing demolition, relocation, and resettlement problem. They initiated a "gift-of-warmth" drive to help people with acute problems, set up a social poverty-relief fund, went all out to deal with public security problems, and made important contributions to the municipality's overall stability.

While fully affirming the accomplishments of the first half of this year, Huang Ju pointed out emphatically that leaders at all levels must pay attention to the problems in today's economic and social development, such as the slow increase in the volume of sales of consumer goods, losses incurred by some enterprises, and slow growth in the tertiary industry. He urged the leaders to seriously study and resolve the new problems and new contradictions that have emerged as the old system is pitted against and is merged with the new system.

Huang Ju said that this is the year to storm the fortification, the year to deepen the reform and open up further; it is also the critical year for Shanghai to fulfill the goal of undergoing "complete transformation in three years." The municipality's leaders at all levels must judge the hour and size up the situation, be circumspect and farsighted, and correctly ascertain the current conditions; they should have initiative and be more forward-looking at work, seize the opportunities, and turn developmental opportunities into developmental advantages; they should have a greater sense of concern and have a pioneering spirit, and meet the challenges courageously,

so as to keep up the developmental momentum and fulfill all of this year's goals of struggle.

As for the tasks in the third quarter, Huang Ju has a six-point program: work more vigorously; ensure the economy's sustained, rapid, and healthy developmental momentum; put more force on enterprise reform and introduce reform measures suited to Shanghai's conditions; meticulously organize and diligently work on market prices; focus on the key points and etch a new image for the municipal government in anticipation of the upcoming National Day celebration; assume a strong sense of political responsibility and work diligently on the demolition, relocation, and resettlement tasks; pay close attention to the meteorological phenomena and do a good job with flood prevention, typhoon warning, and with today's tasks to combat the heat and drought.

Huang Ju pointed out that we must seize today's opportune time to continue to promote sales, especially to actively explore ways to set up marketing mechanisms suited to the socialist market economy, so that market sales will further improve in the second half of this year. Industrial production must follow market direction. Industries must enhance their ability to move funds and energy resources, vigorously increase the production of key products and hot-selling goods, actively develop and produce new products, continue to work hard to turn losses into profits and to increase profit, striving for clear results within the year. We must strive to attract some more new transnational companies to invest in Shanghai, focus on the big projects, and open up new domains and develop new ways of utilizing foreign capital. We must focus on setting up foreign trade groups, meticulously organize work at home and abroad to promote foreign trade, and guarantee the completion of this year's export responsibility.

Huang Ju said, in the next six months, while we continue to put into effect the reform measures already introduced by the central authorities, we must take into consideration Shanghai's own situation and focus on the eight areas of reform, including the implementation of reform of the modern enterprise system and the development of national business affairs. The most urgent task in setting up the modern enterprise system today is to choose some key-point enterprises to spearhead the pilot project, striving to gather some experience by the end of the year. At the same time we must be fully prepared to sort out the assets and verify fund sources and to delineate property rights. We must do solid work and get some initial results.

Huang Ju emphasized that we must clearly understand that keeping market prices basically stable is still an arduous task. We must continue to supervise and check prices closely, prevent chain reactions, and crack down on illegal activities more severely. We must seize the "market basket" project, guarantee supply in the slow summer season, so that the basic needs of the masses of citizens are not affected.

Huang Ju urged construction work to continue to abide by the principle of concentration, speed, and civilization. We should organize and supervise major municipal construction projects more closely to ensure quality, safety, and progress. We must make beautifying the environment the focal point in building and maintaining scenic routes and give the city a new look as we celebrate the 45th National Day.

Huang Ju said that we must diligently sum up the experiences and lessons in our current demolition, relocation, and resettlement tasks and, from the strategic high point of maintaining social stability, we must keep to the reform direction of using land-lease to attract domestic and foreign capital to transform the old city districts. We must accelerate the pace of construction but also be practical, consider what everybody else can tolerate, and balance overall supply and demand in the demolition and resettlement tasks. We must determine our responsibilities, strictly enforce the demolition and resettlement responsibility system, and come up with practical ways to solve some of the serious problems in today's relocation tasks.

Huang Ju urged cadres at all levels to be vigilant about the abnormal global weather change and the occurrences of serious natural disasters this year. We must make sure that the municipality's flood control and typhoon warning are foolproof and plant a foothold on preventing major floods and major disasters, to make sure that we weather this year's flood season safely. At the same time, we must pay special attention to the recent heat and drought situations, do what we can to ease the situation, ensure the supply and safe production of water and power, and avoid serious accidents, and at the same time, we must focus on agriculture, especially combating drought in vegetable production.

The deputy mayor and heads of various committees, departments, bureaus, and districts and counties also attended the meeting.

Qinghai Governor Urges Central Aid for Development

94CE0648A Hong Kong KUANG-CHIAO CHING
[WIDE ANGLE] in Chinese No 262, 16 Jul 94 pp 53-55

[Interview with Tian Chengping, governor of Qinghai, by KUANG-CHIAO CHING reporter Hong Tian (3163 1131); place and date of interview not given: "Qinghai Looks To Natural Resources To Boost Economy"]

[FBIS Translated Excerpt] The ever-widening economic development gap between east and west China has people of insight worried. As long as this problem is not resolved satisfactorily, it will have adverse effects on the country's political and social stability. As a poor province in the northwest, what must Qinghai do to shed its backwardness and spur development? Governor Tian Chengping of Qinghai recently gave an interview to this reporter in which he reflected on the current social and

economic situation in the province and the ways in which Qinghai can pull itself out of its dire straits. [passage omitted]

Brain Drain, Enterprise Flight, Grim Fiscal Situation

Qinghai is home to a multitude of nationalities where economic underdevelopment easily leads to social unrest. Right now the financial and fiscal situation in Qinghai is grim, it has a worsening brain drain problem, and funds, even enterprises, are leaving the province in ever rising quantities. Of the many provinces on the mainland, Qinghai is one of the most impoverished. About 1.19 million people in Qinghai are poor, one-quarter of the province's total population and one-third of its agricultural and stock-raising population. Only Guizhou and Shaanxi have a higher percentage of their population falling below the poverty line. Education in Qinghai has been hemmed in by its economic backwardness. Educational spending reached 300 million yuan (14.3 percent of local government revenue) in the province last year. It must be remembered, however, that government revenue in Qinghai has always been meager and, in addition, most of the educational funds end up as personnel costs, with little being spent on actual educational development. In China, 98 percent of school-age children are enrolled in schools on the average. The corresponding figure for Qinghai is 85.64 percent and barely 32 percent in Yushu and Guoluo, the most destitute areas in the province. In three counties the enrolment rates drop below 30 percent.

Tian Chengping said candidly that given the present trends, it would be an uphill struggle for Qinghai to catch up with the coastal region; just stopping the gap in the level of economic development from widening by the end of this century would be no mean feat. Compared with other regions in the nation, he said, Qinghai has its own unique developmental advantage, namely its resources. Once Qinghai's resources are fully exploited, its economy would certainly experience a quantum leap.

Seven Major Resources Put On Development Agenda

Tian Chengping revealed that seven major resources have been put on Qinghai's development agenda. The first kind of resources is hydroelectric resources in the upper reaches of Huang He. Qinghai is known as the "mother of rivers"; both the Huang He and the Chang Jiang, the two largest rivers in China, originate in Qinghai. Hydropower resources in the upper reaches of Huang He, particularly those in Qinghai, have been dubbed the "rich ore of rich ores." In that 276-km stretch of Huang He between Longyang Gorge and Sigou Gorge, plans have been drawn up to build six large power stations and 11 mid-sized power stations with a total installed capacity of 11 million kw and an annual electric energy output of 35 kw/hr. The Longyang Gorge power station has gone into production and has a current installed capacity of 1.2 million kw. The first generating unit at the 2-million-kw Lijia Gorge hydropower station

presently under construction will start producing electricity in 1996. The second resource type of resource: salt lake resources at Chaidamu Basin. So far proven salt deposits exceed 50 billion tons, with vastly more in long-range reserves. In addition to the element of sodium, there are other associated rare elements such as magnesium, potassium, and lithium. During his inspection tour to Qinghai, Song Jian said, "Almost all the elements you need to make an atomic bomb can be found in Qinghai." As far as the exploitation of salt lake resources is concerned, right now the only recovery work under way is that at Chaerhan salt lake. Phase one of the Qinghai lithium fertilizer plant, China's largest, which has an annual output of 200,000 tons, has now gone into production. Phase two, which has an annual output of 800,000 tons, is under planning at the moment. The third type of resource is the petroleum and natural gas reserves at Chaidamu Basin. Proven oil and natural gas reserves at Chaidamu currently stand at 200 million tons and 50 billion cubic meters, respectively, a mere one-sixth of long-range deposits. The fourth type of resource is gold and non-ferrous metals. According to Tian Chengping, panning goes on in just about every ravine and valley in Qinghai. Not so long ago several more gold mines were discovered in Haixi Prefecture. Fifth, non-metal minerals, primarily building materials. Asbestos from the asbestos mine in Mangya is of a wet spinning quality. Only Quebec asbestos is of an equally high quality. Sixth, Qinghai's animal husbandry industry and its plant and animal resources. The pastoral belt in Qinghai is one of the nation's top five pastoral zones. It is well-known for its herbal medicines like Chinese caterpillar fungus. Seventh, Qinghai's unique tourist resources. Qinghai is home to multiple nationalities. Each nationality has its own special cultural characteristics. In particular, the Zang area in Qinghai has its own special natural scenery and culture, quite different from those in Tibet.

Tian Chengping believed that Qinghai's future lies in resource exploitation. Right now Qinghai's overall development strategy is to "open one line to power the two wings." The "one line" refers to the Qinghai-Tibet Railway, the "two wings" mean industrial and energy construction along the railway. As for construction in south Qinghai, that will have to wait its turn. The realization of this blueprint begins with improving the infrastructure.

Tian Chengping said, "The current development blueprint for Qinghai is based on the way the infrastructure has been shaping up in the province since the 1980's. Take transportation, for instance. The Qinghai-Tibet Railway, which traverses the province, went into trial operation in 1984. Previously there was no railroad in the province, precluding the development of Chaidamu Basin. Now they have built lithium fertilizer plants and non-ferrous metal mines. Nevertheless the railroad does not have enough carrying capacity and needs to be expanded. After the construction of Longyang Gorge power station was completed, we built the Qinghai

Aluminum Plant. Now there are no aluminum mines in Qinghai, but it does have electricity, so industries which consume a lot of electricity can locate here."

Tian Chengping said that infrastructural development in Qinghai has two focuses: building power stations and power networks and improving transportation facilities. Power station construction includes the accelerated construction of mid-sized power stations as well as the building of large stations like the Lijia Gorge station. If current trends hold, there should be enough power generating capacity to meet the energy needs of other industries and Qinghai will not experience electricity shortages even in the next century. As for electric power network construction, the emphasis now is on the "330 project," that is, the 330-volt high-tension power transmission line between Longyang Gorge and Geermu. When the project is completed by the end of the century as hoped, power can be transmitted from Longyang Gorge to Chaidamu Basin, further hastening the basin's development. Turning to the improvement of transportation facilities, currently four projects are under way. The first project is the construction of satellite stations. Future links between Xining and the pastoral areas will be by satellite. Second, the microwave line project between Xining and Geermu. Third, the optical cable project between Xining and Lanzhou. Fourth, transportation within the city of Xining. In addition to these four projects, Qinghai plans to modernize a number of roads including the Qinghai-Tibet Highway.

Referring to problems in the development of Qinghai and the entire western part of the nation, Tian Chengping said that for future development Qinghai and other provinces in the west must depend firstly on their own efforts and secondly on the support and assistance of the state at the macroeconomic level. For their part, the people of Qinghai must rid themselves of three ideas. First, the long-standing concept of self-sufficiency and reliance on the state, concepts that took root under the natural economy and planned economy. Second, the isolationist fear that profits will be siphoned off into other provinces. Tian Chengping said, "There is no way Qinghai can develop its abundant resources without support from all over China. However, people in certain parts of the province are reluctant to see other people come into Qinghai, invariably believing that the latter are out to make money at Qinghai's expense. This idea must be eradicated. Third, we must overcome our inferiority complex and courageously face up to the megamarket at home and abroad. Rarely do the people of Qinghai leave the province and when they do, they only go to Tibet. People always feel that when they venture out, they are apt to be taken advantage of. We simply cannot develop Qinghai without orienting ourselves to the national market. We have several construction teams in Shandong and Zhuhai. They are doing very well and have gained a firm foothold."

Government Support Essential At Beginning

As an economically underdeveloped region, Tian Chengping emphasized, Qinghai must depend on the support of the state as well as its own effort for development. In the beginning, especially, development would be well nigh impossible without substantial investment by the state. Self-accumulation alone is not enough to pay for the infrastructural development of an area. Now that the central government has built up its economic muscle, it is duty-bound to adopt policies of support for and preferential treatment toward the west. Such policies would be in the interests of not only west China but the whole nation. In the 1950's, all China threw its weight behind the development of east China. It will not do for the country to tell the west now that it must rely on itself alone for development. You build a railroad in the east and instantly it energizes the economy along the entire route. The return on a railroad in the west may be notably smaller, but is that reason enough not to build it? The country is now engaged in building a market economy, one of whose functions is spontaneous regulation. This will necessarily widen the gap in economic development level between industry and agriculture, between the city and the countryside, and between developed and underdeveloped areas. Without macro-economic regulation by the state, large-scale construction in the West is essentially out of the question. Qinghai and other provinces and regions in west China have made repeated appeals regarding this issue. At a joint meeting last year organized by the five provinces and regions in the northwest (Qinghai, Gansu, Ningxia, Shaanxi, and Xinjiang), these jurisdictions submitted a report in the name of the conference to the CPC Central Committee and State Council. Among other things, the report proposed the creation of a northwest development bank. As a bank created to accomplish policy objectives, the development bank should derive its funds from government appropriations all as commercial loans. Its function is to extend credit on a priority basis to people interested in investing in the west, charging low interest rates so that its borrowers pay socially average rates. Otherwise, the low return on investment in the west will always be a problem.

Tian Chengping concluded by saying that Qinghai must spend the remaining years of this century still laying the groundwork and leave greater development to the next century. Be that as it may, he is hopeful that Qinghai will prosper, assuming that the people of the province work hard and that the nation adjusts its overall development strategy.

Finance, Banking

Wu Yi on Punishing Export Drawback Fraud
94CE0780A Beijing ZHONGGUO SHUIWU BAO
in Chinese 31 Aug 94 p 1

[Article: "Need To Crack Down Hard on Criminal Export Drawback Fraud Is Call of Minister of Foreign

Trade and Economic Cooperation (MOFTEC), Wu Yi (0709 0308) in National Foreign Trade Work Telephone Conference"]

[FBIS Translated Text] During a 19 August national telephone conference on foreign trade work, Ministry of Foreign Trade and Economic Cooperation [MOFTEC] Minister Wu Yi cited the need to crack down hard on criminal fraud involving export drawbacks, while spurring further development of foreign trade exports at the same time.

Many years practice attest that the export drawbacks policy has played a major role in expanding exports. The affirmation of the export drawbacks policy in article 34 of the "People's Republic of China Foreign Trade Law" provides the legal basis for our practice of this policy. We must diligently enforce this provision of the "Foreign Trade Law," and the basic principles regarding export drawbacks that the State Council has set forth, and we must also crack down ruthlessly on export drawback fraud.

Thanks to support from the tax authorities, work on export drawbacks has been generally good in 1994, but we have found instances in which criminal fraud regarding drawbacks has occurred. This is a major problem faced in export drawbacks work today. This problem seriously disturbs the normal export drawbacks order and greatly hampers the smooth performance of export work. In an attempt to gobble up state assets, a small number of illegal concerns and individuals have resorted to shameless trickery to swindle export drawbacks, their main methods being the following two: first, some lawbreakers have used falsely issued vouchers or falsely filled in receipts to swindle export drawbacks. Second, in violation of normal foreign trade procedures, a small number of export firms have concluded export deals of the "four themselves and the three invisibles" type (traveling salesmen or middlemen themselves arranging customers, themselves arranging sources of supply, themselves arranging bills of exchange, and themselves arranging customs declarations and exporting, enterprises seeing no export goods themselves, seeing no owners of goods supplied, and seeing no foreign traders). The result is deception and opportunities for lawbreakers to defraud export drawbacks. Such swindles have two characteristics: one is inside and outside collusion, i.e., collusion between lawbreakers in the Customs, tax bureau, and firms with lawbreakers in society to defraud export drawbacks; the second is collusion between the public and private sectors, i.e., collusion between state-owned foreign trade concerns and private concerns or lawbreaking individuals to defraud export drawbacks. Although only a small number of lawbreaking firms and lawbreaking individuals have perpetrated export drawback fraud, and the suspected amount of defrauded tariffs found in their possession is not a very large percentage of total drawbacks, the nature of this crime and the threat it poses are extremely serious. If it is allowed to go on, the consequences will be

unimaginable. We must act, using both crackdowns and prevention, conscientiously ferreting out and punishing offenders, and cracking down firmly on tax swindles that have already occurred as a warning against such further conduct. We must also pay close attention to uncovering new tax swindles and questionable matters, and how they operate. We must study them at once and take strict prevention measures, carrying out a resolute, long-term struggle against criminal export drawback fraud in order to safeguard the fundamental rights and interests of the state and enterprises, consolidate and widen results achieved in foreign trade system reform, and guarantee the smooth conduct of foreign trade export work and export drawback work. We must set off a great upsurge in crackdowns against criminal drawback fraud. We must also have a "four irons" spirit in dealing with this issue: ironclad impartiality and justice, iron will, iron discipline, and measures that are as tough as iron. We must mercilessly expose lawbreaking enterprises and individuals, restraining them according to law. Hunjiang City in Jilin Province found through tax and examination agency investigation and verification that on three occasions between July 1992 and January 1993, foreign trade companies had defrauded 7,942,380 yuan in export drawbacks. Between July 1991 and January 1992, the Zhanjiang Native Products Import-Export Company in Guangdong colluded with lawbreakers to defraud 9,938,636 yuan in export drawbacks. Since the above two companies had swindled a huge amount of export drawbacks, since the circumstances were despicable, and since the evidence was irrefutable, in order to uphold the solemnity of the law and discipline, crackdown hard on criminal export drawback fraud, and ensure correct enforcement of export drawback policy, we are announcing here that MOFTEC has decided to cancel the authority to engage in the export business of the Hunjiang Municipal Foreign Trade Company in Jilin Province, and of the Zhanjiang Native Products Import-Export Company in Guangdong, as well as recommend that judicial authorities fix legal responsibility.

For the smooth performance of export drawbacks work, we propose the following requirements for foreign trade and economic relations authorities at all levels, and foreign trade enterprises:

First, we must make energetic efforts to improve propaganda and education so that everyone realizes that criminal export drawback fraud is a great enemy of the distinctively Chinese free trade system, that it is the great enemy of the national treasury, and that it is the great enemy of export drawbacks work. They must truly realize the harmfulness of export drawbacks fraud, and the long-term nature and complexity of the struggle against tax fraud. They must maintain a high degree of vigilance throughout, firmly regarding the prevention of a crackdown against drawbacks fraud as an important matter to be dealt with.

Second, we must work actively with auditing, supervisory, and discipline inspection organizations, and with

judicial and public security units in diligent investigation and punishment according to law of those who take part in tax fraud, not interfering on any pretext with case workers in the performance of their duties, and not permitting cover-ups, deception, and dereliction of duty.

Third, after verifying that an enterprise has deliberately committed drawback fraud, the responsibility of leaders must be first determined. Other persons directly concerned should be held criminally responsible insofar as they committed a crime and depending on the degree of importance of the circumstances. Such firms should also be fined, and their export drawback rights and foreign trade business authority should be revoked. When fraud cases occur repeatedly in an export enterprises because of lax management, or dereliction of duty, positively no softheartedness shall be allowed. The responsibility of their leaders and other persons directly concerned must also be fixed.

Fourth, all export concerns must rectify their management philosophy and their way of doing business, conduct business according to law, and strictly abide by the regulations of MOFTEC and the State Administration of Taxation. They must not complete procedures according to the "four themselves and three invisibles." We hope that supervisory, discipline inspection, auditing, fiscal accounting, and vocational units will do a good job of coordinating and working closely with tax and customs units, to improve the examination of accounts, rigorously perform checks, and completely halt the "four themselves and three invisibles" export deals.

Fifth, all export concerns must toughen their internal responsibility systems, perfect financial rules and regulations, and do a good job of managing drawback certification for organizational fraud prevention. In addition, more training must be given to personnel in the handling of enterprise drawbacks to improve the ideological and political consciousness and professional level of drawback personnel to make them pioneers in the enforcement of export drawbacks policy and in preventing and cracking down on export rebate fraud.

Export drawback policy is an important policy for maintenance of foreign trade exports. We are determined that this work shall be done seriously and conscientiously. It cannot be done in a slapdash and slipshod manner. We must work together with comrades in the departments concerned to do a genuinely good job both in "completely rebating taxes," and cracking down on tax fraud so that export drawback policy spurs the development of imports and exports to the maximum degree and greatest effectiveness.

National Development Bank President Interviewed
94CE0780B Beijing ZHONGGUO WUZI BAO
in Chinese 31 Aug 94 p 1

[Article: "Normalize Operations; Ensure Key Projects—An Interview with National Development Bank Director Yao Zhenyan" (1202 2182 3508)]

[FBIS Translated Text] The National Development Bank, whose goals are macroeconomic regulation and control, maintaining funds equilibrium, ensuring key construction, and leaving no funds shortfalls, issued 32 billion yuan in construction project loans of all kinds between 17 March and the end of June 1994. During an interview, the bank's director, Yao Zhenyan, especially emphasized that the Development Bank's funds will be mostly invested in major projects covered by state industrial policy and long-range plans. If conditions are right, the Development Bank will also provide renminbi counterpart funds for foreign investment in Chinese infrastructure projects.

Yao Zhenyan said that China's founding of the National Development Bank was an important step in the intensification of financial system and investment system reform. The financial system reforms carried out during 1994 are clearly aimed at the separation of financial institutions that operate for policy reasons from financial institutions that operate for commercial purposes. Policy banks are to be founded to carry out government policies, to channel social investment, and to see to it that economic resources are allocated rationally. In addition, investment system reforms show that China's economic development has long been limited by basic industry and infrastructure bottlenecks, and has been troubled by the three problems of investment inflation, structural imbalance, and not very high returns. During the present period of rapid economic growth, the earliest possible solution to these problems has become a priority matter, and the key to their solution lies in the establishment of an investment restraint and risk responsibility mechanism. Thus, the founding of the National Development Bank is for the purpose of more effectively concentrating capital and energies to ensure the building of key national projects, to remove the bottlenecks that restrict economic development, and to increase the government's fixed assets investment macroeconomic regulation and control capabilities.

Yao Zhenyan said that after reform of the investment system, projects will be divided into three categories: category one will be projects of social benefit such as agricultural, water conservancy, education, science and technology, environmental protection, and government construction projects. Since these projects will produce no economic benefit, they will be incorporated into the fiscal budget and government allocations made for their construction; category two will be competitive projects, which may be market-regulated because of their rather good economic returns. They will be competitive in the marketplace; thus, they will be run by commercial banks; the third category are basic projects, i.e., projects of a policy nature such as large and medium-size capital construction, technological transformation, and associated construction that are part of infrastructure, basic industry and cornerstone industries that the State Planning Commission has approved and that are consistent with national development plans, productivity patterns,

and industrial policy. They offer both social and economic benefits, but since their economic benefit will be slow in coming, they are to be run by the Development Bank.

Specifically, the Development Bank will support four kinds of projects through the use and investment of funds: First is major infrastructure projects, including railroads, transportation, civil aviation, municipal public works, agriculture, and water conservancy construction. Second are major basic industries, including industries producing raw and processed materials such as the steel, coal, petroleum, electric power, non-ferrous metals, chemical, construction materials, and forestry industries. The third is important cornerstone industries including the machine-building and electronics industry, the petrochemical industry, the motor vehicle industry, and the construction industry. The fourth is the application of some high and new technologies to the economic realm.

The Development Bank director said that most of the 32 billion yuan credit that the Development Bank issued during the first half of 1994 went for 107 key national construction projects for which the Development Bank was assigned loan responsibility. These projects included the renowned Three Gorges project preparatory engineering, the Beijing-Kowloon Railroad, the Santan Hydropower Station in Guangxi, and the Yangzhuyong Hu Hydropower Station in Tibet. These projects have now received 18.3 billion of the 34.3 billion yuan in credit slated for them for the whole year for 53 percent fulfillment of plan. This includes cumulative loans of 4.7 billion yuan for 24 infrastructure projects, cumulative loans of 11.7 billion yuan for 74 basic industry projects, and cumulative loans of 1.5 billion yuan for cornerstone industry projects.

Yao Zhenyan said there are more than 400 development banks of all kinds throughout the world today, the largest of which is the World Bank. He continued by saying that founding of a development banks is consistent with international practice, particularly practice in development countries. Therefore, China's National Development Bank also borrowed from the successful experiences of many countries and some of the methods of the World Bank. These include: a rigorous examination process for project selection, confirmation, and fund issuance; attention to economic benefit while emphasizing social benefit in the selection of projects; effective supervision while projects are underway; and use of a system of calling for tenders and submission of tenders for project engineering and the purchase of materials or equipment. In addition, the World Bank mechanism served as the model for the use of foreign capital. Loans were divided into soft and hard, and low interest loans or discounting was provided for projects built for policy reasons.

Although the mission of the Development Bank is to provide for state-planned key construction, Yao

Zhenyan emphasized that the Development Bank is no "development treasury," nor are its loans the same as disbursements of public funds. Not only does the bank have to bear responsibility for credit risks, but it must also at least break even on each transaction. Therefore, the Development Bank has set standards for deciding project loans, which include the following: Construction projects must have a project corporate person in keeping with the modern enterprise system; investment estimates must be complete; sources of funds and fund raising methods must be in keeping with applicable national laws, and funds that are raised must be incorporated into central government and local government fixed assets plans; and projects must produce economic benefits and be able to repay loans. In addition, in order to ensure on-time repayment of project loans, project agencies are also required to provide mortgages, pledges, and other credit guarantees.

As a matter of project operating procedure, after government approval to set up a large or medium-size project for policy reasons, the National Development Bank, as the supplier of funds, is responsible for selecting and studying preliminary project funds allocation plans. It is responsible for planning priorities for project fund allocations, taking into account whether a project is coming on stream, winding up construction, continuing to be built, or has just begun to be built. It is responsible for issuing annual plans on the basis of the status of funds availability and funding plans, and for issuing funds month by month each quarter.

Yao Zhenyan disclosed that the National Development Bank's annual loans total approximately 80 billion yuan, or two-thirds of new loans nationwide.

Tax Director Views Export Drawbacks Fraud
94CE0780C Beijing ZHONGGUO SHUIWU BAO
in Chinese 31 Aug 94 p 1

[Article: "Implement Export Drawback Policy To Spur Faster Development of Foreign Trade—Excerpts of Remarks Made by Xiang Huaicheng (7309 2037 6134) in a Nationwide Telephone Conference on Foreign Trade Work"]

[FBIS Translated Text] During a 19 August nationwide telephone conference on foreign trade work, State Administration of Taxation director Xiang Huaicheng, spoke about export drawbacks problems. Detailed excerpts of his remarks appear below.

I would like to state two views about export drawbacks problems:

1. Export drawback policies greatly help the development of exports; they must be steadfastly enforced.

This is the first year of full reform of the industrial and commercial tax system, and it is also the first year in which new export drawback administrative methods take effect. The new export drawbacks administrative

methods simplify drawback procedures, making it easier for exporting firms to obtain tax rebates promptly. As of the end of July, export drawbacks nationwide totaled 27.5 billion yuan in 85.9 percent fulfillment of the 32 billion yuan planned for the year. This is 109.2 percent more than during the same period in 1993. This provides powerful support for the development of foreign trade and for the task of creating foreign exchange through exports. Tax agencies at all levels must continue efforts during the second half of the year. While diligently enforcing policy provisions and conducting rigorous examination and verification, taxes that should be refunded must be refunded promptly to support foreign trade, to ensure smooth completion of foreign exchange earning tasks for the year, and to promote more rapid development of foreign trade. Recently, some jurisdictions have reported that because of the fairly rapid increase in exports during 1994, the substantial rise in export product procurement prices, and the effects of tax system reform and changes in drawback rates, the drawback plan amounts prescribed at the beginning of the year have been used up or will soon be used up. They asked for an increase in drawback norms. We must consider that tax agencies must ensure the development of foreign trade, and that tax money that should be refunded must be refunded promptly. At the same time, however, we must ensure a balance between fiscal receipts and expenditures. Balanced budget pressures are very great in 1994; nevertheless, in order not to impair foreign trade exports, the Ministry of Finance agrees to plan some increase in drawbacks. These drawback plans will soon be sent to every province, autonomous region, and centrally administered municipality. It is hoped that all jurisdictions will manage and use these funds properly. The general principle remains drawbacks based on the amount received, the more received, the more refunded; the less received, the less refunded; and nothing received, nothing refunded. Whatever should be refunded, must be refunded. When nothing is to be refunded, not a cent should be refunded. Should any case of drawbacks fraud or overpayment be found in past drawback handling procedures, the money must be resolutely recovered to ensure that drawbacks are truly used to support the development of foreign trade.

2. Better tax and trade coordination, diligently preventing and resolutely cracking down on drawbacks fraud.

Export drawbacks fraud is a serious crime. Investigation of tax fraud cases has been an important component of export drawbacks work in recent years. Drawback fraud is on the increase in 1994. Although the cases occurred in a small number of exporting firms and involved a small number of lawbreakers, the situation is disgusting and the effect is extremely bad. It seriously damages the country's interests. A resolute crackdown is needed. In the battle between tax fraud and anti-tax fraud, tax agencies and foreign trade agencies at all levels must work closely together, pay close attention, and work hard.

1. While striving to open markets and expand foreign exchange earnings, exporting concerns must conscientiously act to prevent lawbreakers from using false exports to get real drawbacks. Professional personnel must be particularly indoctrinated against "accepting paperwork at face value" out of eagerness for quick success and immediate gain, or enjoying the fruits of others' labor. They must go to production plants to find out about the credit and goods supply situation there. When a declaration is filed with Customs, they should personally inspect the cargo to prevent tax fraud. Both the State Administration of Taxation and the Ministry of Foreign Trade and Economic Cooperation [MOFTEC] have repeatedly forbidden firms to accept paperwork at face value, permitting the "four themselves and three invisibles," (traveling salesmen or middlemen themselves arranging customers, themselves arranging sources of supply, themselves arranging bills of exchange, and themselves arranging customs declarations and exporting, enterprises seeing no export goods themselves, seeing no owners of goods supplied, and seeing no foreign traders). Future instances in which enterprises get by on paperwork shall be punished severely. This is because these enterprises knowingly commit a crime. They willingly serve who damage the national interest.

2. Tax agencies and foreign trade agencies in all jurisdictions must work in unison in investigating export drawback fraud cases. The attitude of the State Administration of Taxation and MOFTEC is firm on this point. Recently, the State Administration of Taxation sent, and will continue to send, more than 20 work teams to inspect key areas and enterprises. All jurisdictions should themselves organize investigations, and export enterprises should conduct their own self-examinations. Special attention should be given to the investigation of coastal trade in imported cargoes from places in which numerous cases have occurred, and in declared exports at Customs where examination tends to be lax. When problems are found, they must be thoroughly investigated. There can be no starting off with a bang and ending up with a fizzle. Once evidence of tax fraud has been found, it must be resolutely and rapidly handled. When sentences should be meted out, they must be meted out, when fines should be levied, they must be levied, when tax drawback rights should be stopped, they must be stopped, and when export rights should be revoked, they must be revoked. All defrauded national revenues must be recovered in full. Recently MOFTEC has announced revocation of the import-export rights of two foreign trade concerns that defrauded taxes. This shows that we mean what we say. It is hoped that all enterprises concerned will take this as a warning. Persons directly responsible for perpetrating tax fraud, particularly professional tax swindlers or groups that specialize in tax fraud must be cracked down on with particular severity. Positively no quarter may be given them. Recently, judicial organs have brought suit and announced sentences in many tax fraud cases. It is hoped that tax agencies and foreign trade agencies at all levels will

continue to do a good job in these regards. Only in this way can the state's property be protected from infringement and the correct enforcement of export drawback policies be safeguarded, the better to spur normal, healthy development of foreign trade.

Expert Discusses Financial Market Development

94CE0745A Beijing JINGJI LILUN YU JINGJI
GUANLI [ECONOMIC THEORY AND BUSINESS
MANAGEMENT] in Chinese No 4, 28 Jul 94 pp 27-29

[Article by Liu Zengheng (0491 1073 1854), Anhui Finance and Trade Institute: "Several Thoughts About Development of the Country's Financial Markets"]

[FBIS Translated Text] A market economy is an economy having diversified main components in which the building of all sorts of markets is necessary. This includes the steady perfection of financial markets, which have a more direct effect than others on development of the market economy. Actively and steadily fostering healthy, mature financial markets is an important part of the building of a socialist market economy system, and it is also one of the necessary choices in reform and development of the country's economy at the present time.

China's financial markets began development during a period of change from a highly centralized planned economy to a market economy. Because of the lingering influence of the former system, and the objective limitations of the economic environment, numerous problems in urgent need of solution also exist in financial markets during this early stage of their development. These problems have a serious affect on the healthy development of the country's financial markets.

First, China has not shaped a unified large financial market. China is a vast land with a large population in which the north is poor and the south is rich, and in which living conditions in inland areas are more spartan than in coastal areas. Economic development is uneven. Money tends to flow into those areas having higher labor productivity rates, thereby producing an over-concentration in the southeastern part of the country and thus a further widening of the disparity in economic development between one region and another. Enterprises in the central and western regions of the country are in an extremely disadvantageous position. Because of the existing system for distributing funds, which consists largely of planned distribution by administrative division, each region resorts to regional lock-out policies in order to prevent the flow of money into other regions. In addition, the prevalence of regional economic lock-outs or local protection definitely limits trans-regional financial exchange. This situation in which each jurisdiction runs things its own way, and in which markets are cut up will seriously impair healthy development of China's financial markets.

Second, control of securities markets is disorganized; methods for issuing and trading securities are too unitary, the kinds of negotiable securities are relatively few;

and the market mechanism is not well developed. Currently, the People's Bank, the Ministry of Finance, the State Commission for Restructuring of the Economic System, and the State Planning Commission all play a part in administering securities markets. Because of the lack of a centrally coordinated authority, unavoidably a situation occurs in which agency functions overlap, procedures are duplicative, several government agencies make different rulings, and coordination of administrative policy and regulation is lacking. The imperfect state of the securities market system shows up in the following ways: First, availability of a rather small variety of securities, mostly treasury bonds and large amounts of transferrable certificates of deposit; second, a single issuing channel—mostly administrative promotion and market sales. Not only does this increase issuing costs, but it also impairs social order and fairness; third is the lack of a modern securities market trading mechanism, the way in which security prices are quoted, traded, settled, and paid for being relatively backward; and fourth is an incompletely developed administrative mechanism. Regulations needed for the issuance and trading of securities, and for securities exchanges are lacking; the caliber of managerial personnel is rather low, and management techniques are antiquated. Fifth, trading network outlet points are few. They cannot meet needs.

Third, banking is in a mess. In China's banking system, the Central Bank, which is primarily responsible for business of a policy nature, does a substantial amount of commercial business. Meanwhile, the specialized banks, which are responsible for commercial business, do a substantial amount of business of a policy nature. The result is a weakening of the Central Bank's macroeconomic regulation and control functions. This also restricts the development of the specialized banks into commercial banks. In the absence of a strong Central Bank working interest rate mechanism, a reserve system, and open market business to regulate and control financial markets, financial market turmoil is unavoidable.

Fourth, the not-fully developed legal system creates nonstandardized financial management, as well as national financial indifference, and a lack of human talent. The government has not set legal limits on financial market conduct. Consequently, turmoil reigns in the financial order. For example, the tendency toward the use of bank credit for fiscal purposes has not been contained. In recent years, in particular, more and more emphasis has been placed on banks' regulatory functions of a policy nature as a means of eliminating stagflation in the economic realm. This has led to a slippage of its "dualistic" focus, the banks actually performing a role as appendages to public finance. In addition, reform of the taxation system whereby revenues and expenditures are divided between the central and local governments, each being held responsible for balancing its own budget has skewed profits and tax incentives. Driven by a need to perform, local governments force banks to depart from their self-limiting course. Credit becomes subsumed into

fiscal revenues under various guises, bank credit thereby being converted into credit used for government purposes.

For a long time during which the country ran a predominantly planned economy, national financial awareness and investment awareness was virtually nil. Since the advent of reform and opening to the outside world, particularly in recent years, the trend toward monetarization of the economy has become increasingly stronger. Generally speaking, the development of financial markets frequently is in direct ratio to the citizens' awareness of finance and securities. The next step in the development of China's financial markets urgently requires large numbers of financial managers, financial market brokers, and national financial sophistication, the degree of sophistication directly controlling the maturity of financial markets.

Financial markets develop when a commodity economy develops to a stage in which credit is highly developed. Their rise and development must move ahead in obedience to objective laws. Right now, speeding up the rise of financial markets must orient toward the development of a fair, highly efficient, open, and uniform financial market system. Further intensification of financial system reform for greater macroeconomic financial regulation and control must be accompanied by step-by-step opening of short-term financial markets, including short-term call loan markets, commercial paper discounting markets, and short-term bond markets, etc., as well as long term financial markets including bond and stock markets for the planned expansion of the issuance of negotiable securities such as bonds and stocks. I believe the specific actions needed for future reform and development of China's financial markets to be as follows:

1. Steady Intensification of Financial System Reform With Full Opening of Financial Markets, Gradually Making Financial Institutions Function Like Real Businesses

The building of a banking system, in accordance with the goal of gradually establishing a socialist market economy system, (in which state-owned full-service commercial banks are predominant, and in which diverse financial institutions such as policy banks and local banks co-exist) holds important theoretical and practical significance. This will not only demolish as quickly as possible the existing excessive banking and finance monopoly for full arousal of the interest of both the central government and local governments to spur sustained, rapid development of the national economy, but it will simultaneously broaden the specialized business of financial institutions, and limit and introduce a financial competition mechanism. It will also help accommodate to the world financial development trend, accelerate the rapid development of China's banking and financial business, and raise the international competitive position of China's financial business.

The opening up of financial markets requires step-by-step decrease in control over the amount of credit, a change toward currency supply style control, virtual decontrol of interest rates, and allowing the markets to form gradually an interest rate system in which the Central Bank's base interest rate is supreme. In addition, enterprises must be provided with diverse and smoothly functioning channels for raising money in markets to reduce their reliance on the banks for money. Excessive control over enterprises' issuance of bonds must be eliminated, enterprises encouraged to use financial markets for direct financing. Enterprises must be permitted to go to financial markets for direct discounting of commercial paper. Financial institutions that operate like businesses must be expanded to a certain extent, including approval of the establishment of some legal financial institutions for the purpose of curbing the lending of money at high interest rates and channeling credit among people. Restrictions on business enterprise and resident foreign exchange dealings must be further broadened or eliminated to get rid of sole reliance on several large banks that monopolize financing and the supply of funds to promote formation of a financial market competition mechanism.

Putting financial institutions on a truly business basis requires gradually permitting them to make their own business decisions, to balance themselves, to account independently, to take responsibility for their own profits and losses, and to bear their own risks. Making their own business decisions means true autonomy in making loans, they themselves deciding on the basis of their economic returns whether to grant or not grant credit. This will help spur financial institutions to orient toward financial markets and operate for the purpose of making a return, thereby spurring changes in product mix and the structure of industry. Balancing themselves means using open financial market business activity to gain balance between the investment of funds and the regulation of withdrawals of currency from circulation to spur development of financial markets. This can reduce reliance on Central Bank funds. By being responsible for their own risks, accounting independently, and being responsible for their own profits and losses, financial institutions can not only hold down the impact of the unjustified establishment of agencies, the scramble for business, the pressures on negotiable instruments, and the pressures on exchange that currently exists in financial institutions; but more importantly, they will be able to curb the reckless issuance of credit, which will make credit safer.

2. Energetic Fostering of Capital Markets, Steadily Perfecting and Unifying Them

Negotiable securities are an important financial tool of capital markets. Another name for capital markets is securities markets, which are long-term funds markets. They include stock markets and bond markets in which stocks and bonds are issued and traded. Henceforth, while using bond markets primarily, it is necessary to put

a major effort into the fostering of stock markets. The development of stock markets requires the nurture of standardized share system firms. Reform of China's share system cannot be accomplished overnight. Therefore, henceforth, China's capital markets will continue to concentrate on the development of bond markets, gradually increasing the percentage of stocks among the negotiable securities that are issued and traded. We must gradually change bond market transactions from mostly treasury bonds to mostly enterprise bonds. An agency will have to be established for this purpose that provides full services for enterprises issuance of bonds, including application procedures, prices, and techniques, and providing guidance on returns, risks, and assignment in bond trading.

Second, the size of securities markets must be increased somewhat, and the kinds of financial assets diversified at the same time. Securities markets must be of a certain size for both issues and trades. Only when securities markets are of a certain size can the securities markets play a real role in advancing the economy, and can people have an opportunity and room for making choices to ensure that securities markets are relatively stable. In the future, as disposable money income increases, and the demand for the selection of financial assets increases, the amount of stocks issued will increase. At the same time, new securities will be gradually offered such as trust benefit securities, investment fund securities, and real estate investment bonds. Issuing markets and trading markets are interdependent and interactive. The two cannot succeed at the expense of each other. Issuing markets determine trading markets, and trading markets support and advance issuing markets. If trading markets do not keep pace with issuing markets, holders of securities may leave the market because of poor circulation of securities. Ultimately, this will have an adverse affect on the size of the securities markets.

Third, securities markets must be integrated. Regional securities markets and split up securities markets require establishment of a nationwide, integrated securities exchange to enable the rational apportionment of capital throughout the country. The existing Shanghai and Shenzhen securities exchanges may be used as a hub for the building of a securities network that radiates into other economic areas, modern communications equipment tying together the exchanges into a network. At the same time, securities issuance and trading policies, systems, and regulations everywhere in the country must be unified to enable the country's securities markets to abide by fair, open, impartial international principles for healthy development, avoiding unnecessary detours.

3. Attainment of Balance Between the Aggregate and the Make-up

The Central Bank, together with the State Planning Commission and the Ministry of Finance, must set up a coordinated linkage mechanism between public finance

and credit to ensure balance between the total amount and the make-up of public finance that is in keeping with balance between national industrial policy and the regional economic structure. In addition, it must institute a low interest policy regarding fiscal credit activities that is in keeping with industrial policy and financial macroeconomic regulation and control. For that portion of credit funds that public finance uses that is not in keeping with policy, an additional and punitive interest policy must be put into effect. Responsibility must be spelled out for fiscal overdraft and defaulting enterprise subsidies and losses, which must be cleared up within a certain period, these means used to contain the intensification of the degree to which credit is by the government to the exclusion of others.

4. Gradual Decontrol of Foreign Exchange Markets, Expanding the Opening to the Outside World of Finance

A nationwide swap market combined price quotation and transaction system must be set up for the gradual formation of a unified and open foreign exchange swap market system that helps the horizontal circulation of foreign exchange. It is necessary to increase the kinds of foreign exchange swap market transactions, places having requisite conditions selected for the trial operation of long-term foreign exchange trading. The scale of foreign exchange market swapping must be expanded, individual foreign exchange and other nonforeign trade foreign exchange supply and demand gradually being incorporated into foreign exchange markets in the expansion of the markets regulatory function. Close attention must be paid to the merging of exchange rates, spot exchange swaps used as a basis for setting up a renminbi formation mechanism based on the market exchange rate. "Spot exchange retention renminbi-tied loans" must be established to solve the insufficient renminbi problem of concerns that retain foreign exchange, principles drawn up that spell out the interest rates on spot exchange retention renminbi-tied loans and the interest rate on retained spot exchange. A foreign exchange stabilization fund system must be set up that uses economic means to regulation foreign exchange supply and demand to stabilize market prices. Plans and policies must be drawn up as the national economy develops. A market exchange rate ceiling or floor price may be set for use when the market fluctuates substantially. Regional lock outs must be eradicated to promote horizontal financing using foreign exchange resources in order to promote the formation and development of a unified nationwide foreign exchange market. In addition, the advanced administrative and management methods of foreign banks must be actively introduced and applied in an expansion of the opening of finance to the outside world. Effective supervision and control of the activities of financial institutions must be conducted according to international practice.

5. Improved Financial Legislation

The Central Bank must administer finance according to law, drawing up and promulgating as quickly as possible a "banking law," a "currency law," and a "negotiable instruments law," etc., applying legal means to the administration of finance. Thus, financial activities will have laws to rely on to support stability in the financial order, and to maintain orderly and regularized financial activity. In addition, energetic efforts must be made to increase the training of financial skilled people, and talent that understands both finance and other specialties. We must both operate financial institutions and financial specialties, and play close attention to the nurture and improvement of people already doing financial work.

Bank Official on Bank's Financial Resources

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[Interview with Deng Tingduo (6772 1694 6995), deputy director of the Comprehensive Planning Bureau, National Development Bank, by CHING-CHI TAO-PAO reporters Zhang Hong (1728 4767) and Jiang Tao (3068 3447); place and date not given: "Development Bank Set To Finance Key National Development Projects"]

[FBIS Translated Text] In a recent exclusive interview with this publication, Deputy Director Deng Tingduo of the Comprehensive Planning Bureau, National Development Bank [NDB], answered reporters' questions about the duties and functions of the bank, its financial resources, where the funds are being spent, and how it proposes to implement the nation's industrial policy.

Product of Investment Reform, Financial Reform

[CHING-CHI TAO-PAO] This publication has carried a couple of reports on the NDB after its establishment. Director Deng, can you briefly describe its duties and functions as well as the significance of its creation?

[Deng Tingduo] The NDB's principal duties and functions are clearly laid down in the State Council circular on its creation as well as the "three-decision" plan recently circulated. They are as follows. In accordance with national policies and goals, exercise macroeconomic regulation and control over the total amount of funding and the funding structure of national projects whose financing is lined up by the bank. Find stable long-term funding sources. Raise and guide social funds to finance key national projects. Support large and mid-sized projects in the infrastructure, basic industries, and pillar industries (commonly known as the "liang ji yi zhi") technological transformation projects, and related projects. In accordance with the principles of the socialist market economy, gradually create an investment risk responsibility and restraint mechanism, raise

the return on investment, and promote sustained, rapid, and healthy national economic development.

The NDB is a product of investment reform and financial reform in China. The reform of the investment system has altered the way in which funds are lined up and the investment pattern. In the past state investment came from six major investment companies and the banks concerned. This responsibility now rests on the NDB. For instance, over 70 percent of the capital construction loans this year came from the NDB. As part of financial reform, the policy-making function of the existing banking system was separated from the commercial part of its operations. The NDB, import-Export Bank, and Agricultural Development Bank were set up to discharge policy-related functions, freeing other state banks to become bonafide commercial banks. Since its day of inception, the NDB has made it its basic duty to carry out the government's macroeconomic regulation and control policies and adjust the industrial policy.

Seven Major Financial Resources

[CHING-CHI TAO-PAO] To do its macro-regulatory and control job in investment, the NDB needs to be backed up by formidable financial resources. Could you tell us something about the NDB's financial resources and how it raises funds?

[Deng Tingduo] The NDB has seven major sources of income. First, its capital. As demanded by the State Council, the development bank has 50 billion yuan in registered capital to be made available over a period of four years, including 12 billion yuan allocated this year, most of it from the government budget.

Second, the issue of financial bonds. We plan to issue 65 billion yuan worth of financial bonds in five batches this year, targeting mainly state commercial banks, urban credit unions, and postal savings institutions. Two batches were issued in May and June, raising a total of 28 billion yuan. Bonds issued in July were expected to net 10 billion yuan. Two more batches will be issued in August and October.

Third, the recovery of old commercial fund loans and the recovery of pre-1988 loans that were made to replace grants. These funds also are a component of the NDB's capital fund.

Fourth, interest subsidies made available by the Ministry of Finance. Since the development bank charges lower interest rates on its loans, the treasury offers it interest-subsidy funds. This year interest subsidies amounted to 500 million yuan. The amount will go up as the bank expands its operations in the future.

Fifth, the bank issues construction bonds to members of society. The issue of construction bonds is approved and guaranteed by the government. The bank has not issued any construction bonds this year but may do so in the future if it does not have sufficient funds.

Sixth, the NDB may raise funds off-shore. To line up financing for key construction projects, the bank needs foreign exchange funds as well as renminbi funds. Besides, there are only limited funds available domestically, so it must look overseas to raise more funds. There are three major sources of off-shore funds. One, the NDB may allocate that portion of domestic funds that come from foreign government loans and long-term loans extended to China by international banking organizations on concessionary terms. The development bank may pool foreign loans and re-lend them. Two, it may issue bonds and raise foreign funds off-shore in accordance with the central government's foreign capital utilization plan. Three, it may take out commercial loans overseas with the approval of the government.

Seventh, re-lending by the central bank. When its funds fall short, the NDB may apply to the central bank for re-lending within the plan to be guaranteed by the central bank. When the NDB experiences a temporary cash flow problem, it also may turn to the central bank for short-term relief.

NDB Devotes Most Funds to "Liang Ji Yi Zhi"

[CHING-CHI TAO-PAO] How does the bank decide where to commit its funds?

[Deng Tingduo] Funds raised by the NDB mostly go to the infrastructure [jichu sheshi], basic industries [jichu chanye], and pillar industries [zhichu chanye]. There are five major areas: 1) Projects to eliminate bottlenecks hampering national economic development; 2) key projects in pillar industries that directly enhance the nation's overall strength; 3) projects that utilize cutting-edge technologies; 4) major inter-regional projects that have policy significance, such as railroad construction and large-scale river harnessing projects; and 5) other major projections that have policy significance. In practical terms, it also funds small projects related to projects called for in a policy, but they are relatively few.

In deploying its funds, the NDB was the first to emulate the World Bank's practice of dividing loans into soft loans and hard loans. Soft loans come from the bank's own capital funds. These are long-term loans extended on favorable terms to projects that need to issue matching shares. In practice, these loans may go to companies of which the state is the majority shareholder or to central enterprise groups. It is then up to them to issue shares to match. Soft loans also may be made to development and investment companies. Projects unsuited for companies whose controlling shareholder is the state or central enterprise groups are to be run by development and investment companies. Right now such companies are under preparation. The NDB did not open its door until 17 March this year. It took over the loans issued by the six original companies using working funds. These loans too are called soft loans. The difference between our soft loans and those of the World Bank is that we charge interest rates, albeit at lower rates. The actual rates have yet to be decided.

Hard loans mainly come from the host of borrowed funds and are made directly by the NDB to the projects based on the government's investment plan and credit plan. Interest rates on hard loans have not been decided upon either but we are inclined toward setting them at levels generally lower than those charged by state commercial banks. Most of these loans are extended to large and mid-sized state projects in capital construction and technological transformation as well as related small projects.

[CHING-CHI TAO-PAO] Reportedly the NDB already has made several loans. Can you shed more light on where funds are being spent based on these loans?

[Deng Tingduo] Four batches of loans valued at 27.7 billion yuan in all were made in the first half of this year as planned. Of these funds, 94.6 percent went to 263 large and mid-sized state projects. The fund delivery rate in the first half of the year was 52 percent. Of the 263 projects, 107 are key national projects. A total of 18.3 billion yuan was delivered to these projects, 55 percent of the annual plan. Overall the fund delivery rate is better this year than the year before. In particular, the funding requirements of key national projects were met. The Da Banner Power Plant in Inner Mongolia, for instance, actually received 170 million yuan in loans in the first half of the year, implementing 73.9 percent of the annual plan. The Beijing-Kowloon Railroad had 2.1 billion yuan in loans delivered to it, over 68 percent of the annual plan. The Huainan coal mine project received 2.74 billion yuan in loans, representing 56 percent of the annual plan. Everybody has reacted favorably to the high delivery rate.

Adopt "Four Strict Four Preferences" to Implement National Industrial Policy

[CHING-CHI TAO-PAO] The government recently announced its industrial policy for the 1990's. As the nation's policy-oriented bank, what specific steps will the NDB take to coordinate with that policy?

[Deng Tingduo] As the government's policy-making bank, it goes without saying that our basic objective is to implement the government's current industrial policy and investment policy. From the very beginning, the NDB has tackled the control of the scale of investment, the optimization of the investment structure, the improvement of the returns on investment, and the intensification of macroeconomic regulation and control of fixed assets as its core duties. In the several months since it opened for business, the bank has done a lot to strictly control where funds are going and ensure that the funding requirements of "liang ji yi zhi" projects are met, as epitomized by the "four strict, four preference" principle. "Four strict" refers to: 1) make loans in strict accordance with the government's credit plan and fixed assets investment plan. Exceeding the plan without authorization is prohibited. Not a single project outside the plan will be issued a loan. Nor will any amount in excess of the cost in the plan be financed; 2) strictly limit

the number of new projects. New projects that have not been approved will not be given a loan; 3) strictly scrutinize the terms on which loans are made. Pay special attention to the way the total investment of a project is being made available so that funds are actually there to carry out the project; and 4) strictly examine whether or not other investors in a project have fulfilled their capital commitments and urge them to do so. As a policy bank, the NDB must not only manage its share of construction funds properly, but must also regulate, control, and attract other funds in addition to supervising and monitoring them. The "four preferences" refer to the preferential policies and preferential support to be applied or given to key national projects and other projects consistent with the industrial policy. There are four major components. First, give support on a preferential basis to projects that help adjust the investment mix, projects pertaining to bottlenecks that crimp national economic development, and projects in other weak links in the economy. Second, prioritize projects depending on whether a project is about to be wrapped up, prepares to go into production, continues an existing project, or represents a new project. Projects being wrapped up or about to go into production should be given preferential treatment when it comes to funding. Third, projects in the plan, particularly large and mid-sized key projects, should be funded on a priority basis. Fourth, projects and industries which are in line with the nation's industrial policy, such as key projects in agriculture, energy, and transportation, should be offered favorable interest rates. Differential interest rates should be applied in their cases.

[CHING-CHI TAO-PAO] As it implements the national industrial policy, would the NDB consider adopting any policy that gives special treatment to central and west China?

[Deng Tingduo] It is not the objective of the NDB to make a profit. When it comes to actually making loans to projects, it must give greater consideration to the distribution of productive forces and industry. So I think we must adopt a preferential regional policy to spur the rapid development of west and central China.

Stock Markets' Problems, Measures Viewed

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[Article by Cheng Boming (4453 0590 2494): "China's Stock Markets: Functional Flaws and Control Countermeasures"]

[FBIS Translated Text] China's stock markets have experienced several very unusual years in the midst of rough trials and hardships. While one can evaluate and judge China's current stock markets from differing aspects and angles, using various reference parameters, in the final analysis, the standard for judging whether China's stock markets are normal and sound remains whether they are performing their proper functions.

I. Stock Market Functions—The Ideal Theoretical Model

Theoretically, stock markets play a very important role in the overall market system, exerting an extremely crucial impact in speeding up economic growth, and having the following major functions:

1. The Fundraising and Financing Function

This is the most essential function of stock markets. Stock markets, as the socialized product of capital operations, are a result of the constant change, development, and growing perfection of the financing form. In stock market operations, the trading targets—stocks, as the operators of fictitious capital, are the external expression of capital operations. So stock market functions are reflected first in the field of capital operations, expressed as the raising and financing of funds to speed up capital formation. Fundraising is expressed through stimulating the production and expansion of savings, while financing shows up in speeding up the conversion of savings to investment.

Stock market operations have created a new type of financial asset—stocks. As stock markets involve high efficiency, high risk, and high turnover, stock market operations meet to varying degrees the goals of preserving and increasing the value of financial assets. This is precisely the sense in which stock market operations can raise financial awareness, by curbing immediate consumption and reducing the consumption tendency, to promote savings formation and expand the savings inclination. In this way, the existence and operation of stock markets not only make enterprise or corporate fundraising possible, but also are a key means of enterprise or corporate fundraising.

The importance of stock markets in capital formation is that they not only can separate out the maximum savings from fixed national income (fundraising), but also can quickly and effectively speed up the conversion of savings to investment (financing), to expand overall investment. As all know, since the form of indirect financing by banks has evolved and grown, capital formation channels have broadened to a greater degree, thus meeting the need to socialize capital operations, and speeding up commodity economy development. But as the inherent flaws of bank financing, such as indirect, short-term, and reversible, make it hard to a certain extent to meet the inherent needs of capital operations, an indirect, long-term, and irreversible form of stock financing has arisen. And the emergence of the stock-financing form has also undoubtedly further broadened capital-formation channels, developing resource-disposition space. So the directness of the stock-market financing form helps all economic players to realize their investment rights (in that economic players can employ monetary capital to freely choose their investment orientation and quantity), while providing equal investment opportunities for economic players of varying

investment capability. The public issue and free circulation of stocks create the terms for investors with enormous monetary capital (large firms) to invest in the market, while providing opportunities for small and midsize investors with small amounts of monetary capital to invest in enterprises, thus laying a solid foundation for the conversion of scattered capital into enormous capital, to speed up capital formation. Meanwhile, the long-term nature and irreversibility of stock-market financing make it possible to convert short-term capital into long-term capital and consumption funds into production funds. On stock markets, once investors buy a company's stocks, they naturally become the company's shareholders, being able not to take back their own share capital from the company's capital, but only to transfer and freely trade their stocks. Such corporate property rights constitute system and transaction mechanisms, so that once the short-term capital and monetary funds that were formerly stopped in the consumption field and idle are shifted to stock markets, they become long-term and permanent corporate share capital, which also naturally increases the conversion rate of savings to investment.

2. The Vigilance Function

The effective operation of stock markets not only raises fundraising and financing speed and efficiency, speeding up capital formation, but also provides economic information to all parties, playing a vigilance function. In countries with highly developed market economies, stock prices and economic operations often tend to change in the same direction, with stock market price volatility often preceding in a larger degree macroeconomic fluctuations. This is because stock market price volatility is faster and more quick-acting than macroeconomic fluctuation. When the macroeconomy bottoms out and begins to recover, with investors starting to show interest in stock investment, and stock demand growing, stock market prices are often not governed by the laws of macroeconomic operations, rather being expected to rise quickly; similarly, when macroeconomic operations are out of balance and facing crisis, stock market prices fall quickly. It is thus obvious that stock market prices fluctuate more and faster, which is grounded on one hand in macroeconomic fluctuations, while on the other their peculiar laws of change become signals of macroeconomic fluctuation. It is precisely in this sense that stock market price changes are often regarded as "barometers" of macroeconomic operations. In addition, as stock price fluctuations also reflect microeconomic conditions, or the operating grades and management quality of listed companies, with stock-price change often preceding company-operation change, stock-price changes also provide market signals for companies to improve their operation and management, adjust their growth orientation, and improve their operating grades.

In short, stock markets perform their function of providing economic information and indicating economic

trends, or the vigilance function, mainly through stock-market price signals. Moreover, as stock-market price signals hold a central position in all market information and can reflect all possible market information, the accuracy of stock-price signals become the key indicator of the strength of the stock market function of providing economic information and indicating economic trends.

3. The Adjustment Function

Stock-market price-change and operation also provide market signals for industrial structural adjustment. When a certain industry has good growth prospects, the stock prices of its listed companies rise quickly; conversely, when a certain industry has gloomy growth prospects, its stock prices decline rapidly. The essence of industrial structural adjustment is the shift, flow, and reorganization of production factors among sectors, regions, and enterprises, while the essence of production-factor flow is also capital liquidity. Stock markets, as an effective form of direct financing, can sharply raise capital liquidity, broadening production-factor shift-space.

In detail, on one hand, stock markets can make incremental [quantitative] adjustments of industrial structures, injecting new production factors into existing industrial-structure systems, by adjusting the production-capability makeup among industries, to promote a higher-tech industrial structure. In developed stock markets, incremental adjustments of production factors among sectors, regions, and enterprises can be achieved directly through the stock mechanisms of public issue and free trading, which marketized incremental-adjustment form is more obviously superior to non-market incremental-adjustment forms, such as fiscal appropriation and bank lending, in adjusting and upgrading industrial structures. It helps not only to reduce investment risk, but also to make investment more rational, preventing arbitrary and unchecked investment, to raise investment efficiency. So incremental adjustment through stock markets is a more effective and faster form of industrial structural adjustment. On the other hand, stock markets can also make qualitative [inventory] adjustments of industrial structures. For instance, qualitative adjustments can be achieved through share participation and stock control among companies. In stock market operations, companies can engage in mutual share participation to build lateral ties bound by stock rights. Certain enterprises with good growth prospects, high efficiency, and strong might can infiltrate other enterprises in form, such as stock control and share participation, exploiting the other enterprises' production capabilities to expand their own production operating limits and scope; and other enterprises, through such lateral links, as subsidiaries of [stock control] holding companies, can gradually adjust their own production and development. Another form of qualitative adjustment is diversified operation and development through joint-stock companies per se. Joint-stock companies, as independent corporations,

enjoy full operating autonomy, being able to develop diversified operations not subject to local, departmental, or governmental restraint. Such trans-regional and -departmental diversified operations are very flexible, being able to cut back production of unmarketable products, and expand that of products with good marketing prospects, to voluntarily shift assets inventories within companies. In addition, qualitative adjustment can also be achieved through enterprise closings and bankruptcies. In stock market operations, stock-price changes roughly reflect a company's operating status quo. The prices of shares in companies with poor operating efficiency fall, causing shareholders to sell, facing the companies with the danger of closings or bankruptcies. In such cases, well-run enterprises whose products have marketing potential can buy shares to purchase enterprises on the verge of shutdown or bankruptcy, which also qualitatively adjusts the industrial structure, bringing about the reorganization and optimum disposition of production factors.

4. The Restraint Function

Once the company capital-ownership function is separated from the company operation and management function, corporate assets ownership and operating authority are completely separate, with the large numbers of shareholders holding the ownership rights to corporate assets, while management staffs hold the operating authority over corporate assets. Especially when corporate property rights are extremely decentralized, management staffs hold more complete autonomy over all operation and management of corporate assets, providing the microeconomic terms for management creativity. Meanwhile, well-run companies bring liberal wages and benefits to managers (such as high salaries, status, and prestige), while providing the inherent drive for management creativity.

Of course, in effective stock-market operations, the shareholding strata does not completely lose its control over corporate assets rights. Even when corporate property rights are extremely decentralized, both legal-person or natural-person shareholders can use the form of "voting with their hands" to directly express their ideas and views on corporate development strategy, thus exerting influence on management; they can also use the form of "voting with their feet" in response to corporate operations. If management operations are improper and corporate grades and efficiency are poor, the shareholding strata can sell off large amounts of corporate shares on stock markets, causing the company's stock prices to plummet, and confronting the company with a severe crisis. In this case, the board of directors, as the company's standing authoritative body, to protect the interests of the large numbers of shareholders, has to deal with the incumbent management, even to the point of dismissing it. It is thus obvious that well-run stock markets create totally new incentive and restraint forces for management by the shareholding strata, strengthening management decisionmaking power, while safeguarding the basic right of the shareholding strata.

In addition to these, stock markets also have functions, such as raising the efficiency, competitiveness, and discharge capability of the banking sector, and improving fund-use efficiency and investment-disposition efficiency.

II. The Functional Flaws in China's Stock Markets

While stock markets theoretically have these functions, this certainly does not mean that as long as there are stock markets, they will be able to effectively perform them. In various countries or in the same country in differing stages of economic development, particularly in different stages of stock market development, there is a great disparity in the degree to which stock markets perform these functions. An overview of China's stock market development shows that their functions are still quite limited, still quite far from the ideal theoretical model.

1. The Fundraising and Financing Function Is Inadequate.

Generally speaking, the strength of the stock market's fundraising and financing function is reflected in the breadth and depth of stock market development. Breadth means the degree of stock market extension and proliferation, including in detail matters, such as the degree of dovetailing of the division of labor into primary markets, secondary markets, "tertiary markets," and even "fourth-hand markets," the product mixes of listed companies, the quantitative makeup of share issuers, operators, and investors, and the development state of intermediate service agencies. The higher the degree of the division of labor in the stock market system, the greater the number of share-listing varieties and market players, and the more developed the intermediate service agencies, the stronger the fundraising and financing function; and vice versa. Stock market depth is reflected at two levels: Macroeconomically, it is the ratios of share issue amount or stock market value to GNP, and of overall credit to overall investment; microeconomically, it is the ratio of the market value of investor-held shares to the gross value of financial assets.

Using these indexes for a comparative analysis with mature stock markets, it is not hard to see that the fundraising and financing function of China's stock markets is still quite inadequate. While China's stock markets have established two exchanges and two corporate-share systems, as well as having a certain quantity of market participants, they are still far from being mature stock markets, which can be seen very clearly from a comparison of stock market values. In 1993, China's stock market value was only 370 billion yuan (about \$41 billion), while at the beginning of 1992, the stock market values of the top three of the world's 10 major stock exchanges were respectively New York at \$3.5739 trillion, Tokyo at \$2.407 trillion, and Osaka at \$2.0114 trillion, respectively 87, 58.7, and 49 times China's stock market value.

As to market depth, whether the ratio of share issue amount or stock market value to GNP, or that of share issue amount to all bank loans or the society's gross fixed assets, we are in all cases very low. In addition, our ratios of enterprise direct financing to indirect financing, particularly of stock-market financing to indirect financing, are even more insignificant. Moreover, our makeup of individual holdings of financial assets is also very irrational. In March 1994, bank deposits made up 61.6 percent of China's individual holdings of financial assets, while stocks made up next to nothing. As China's shareholding and stock markets are still in an experimental stage, with annual offerings and listings of stocks naturally very limited in amount, it is impossible for our stock markets to have much depth or breadth.

The Vigilance Function Is Weak.

In most recent years, China's stock market operations have roughly gone through two stages: Before February 1993, stock prices rose steadily; since February 1993, they have declined steadily. During the stage of steady rise in stock prices, while stock prices were basically consistent with our overall state of macroeconomic development, on one hand, stock market prices rose too much (which was reflected both in our stock price index and in particular stock price levels). As to our stock price index, its rise far exceeded our GNP growth rate. And as to particular stock price levels, judged by the ordinary market-profit rate, our market-profit rate was too high, topping 1,000 times for some stocks at the time, while the market-profit rate on mature stock markets is generally about 10 times. On the other hand, the frequency and degree of our stock price rises and falls were too fast and too abrupt. For instance, the Shenzhen and Shanghai stock markets experienced in less than 3 years three or four sharp ups and downs, each time skyrocketing or plummeting more than 50 percent, which was rare in the history of world stock market development.

But during the stage of steady stock-price fall since late February 1993 (at which time the Shenzhen and Shanghai composite indexes topped out respectively at 368 and 1,553 points, but by the close on 4 May 1994, the Shenzhen index was at 157.98 points and the Shanghai index at 619 points, down respectively 57.07 percent and 60.14 percent), our stock prices have run counter to our economic trends (with the Chinese economy growing at a high rate of 13 percent in 1993). So in our stages of both stock-price rise and fall, our stock market vigilance function was not evident, at times even being dysfunctional, meaning that our stock markets have not yet become "barometers" of our economic operations.

Macroeconomically, while China's stock markets have been growing for several years, making great progress in the area of public disclosure of market information, which can be seen in detail in that investors can obtain not only information relating to past stock prices and earnings, but also public financial, achievement, and

ex-right annual and medium-term reports, individual stock prices are completely divorced from the state of operation and growth of their companies, with it being quite common for excellent stocks to be cheaply priced, while inferior ones are expensive due to speculation. So our current stock market prices do not accurately reflect the operating grades and management levels of their listed companies.

3. The Adjustment Function Is Very Limited.

The state of our stock markets in recent years shows that their adjustment function is not up to expectations. On one hand, as to stock prices, the prices of shares in manufacturing, commercial trade, and real estate companies are generally good, while the prices of shares in basic-industry enterprises are generally lower than those of companies in other lines. On the other hand, as to the makeup of listed companies, of the companies listed on the Shenzhen stock market at the end of November 1993, 13 percent were financial composites, 18 percent were in real estate, 7 percent were in commerce, and 5 percent were in public utilities, while 57 percent were in industry. It was only by December 1993 that the industrial makeup of the Shenzhen stock market began to undergo certain changes, with the listing of the Anhui Wanneng shares (energy and power shares), and the subsequent listing of shares in four Guangdong power companies, pushing the percentage of public-utilities enterprises in listed companies up to about 10 percent, with their market value reaching 12 percent of the whole. By 6 December 1993, of the 102 companies listed on the Shanghai Exchange, 61, or 59.8 percent, were in industry, while eight, or 7.8 percent, were composites, 15, or 14.7 percent, were in commerce, seven, or 6.86 percent, were in real estate, and 11, or 10.78 percent, were in public utilities. In short, most listed companies are in manufacturing, commercial trade, and real estate, while only a few are in basic industry. Such a stock-listing structure obviously deviates from our industrial structural-adjustment orientation, putting our industrial structure even more out of balance. Under such conditions, the stock market adjustment function is naturally unable to develop.

4. The Restraint Function Is Not Strong.

As to the share-capital makeup of China's current listed companies, state shares hold the absolute stock-control position (over 50 percent), while the state and corporate shares in these companies (except for a few) cannot be listed for circulation, leaving the incentive and restraint functions on corporate management through stock trading by the large numbers of shareholders next to nothing. In other words, as state shares hold a monopoly position and state and corporate shares cannot be listed for circulation, the "voting by feet" against corporate management by the large numbers of individual shareholders through share trading does not play much of a role. As the holdings of listed companies are overconcentrated, the stock-market restraint function is bound to be

restricted. This high concentration of holdings, on one hand makes it hard for listed-company management to avoid or stop direct control of the company's operating authority by certain large shareholders, thus making it hard for corporate management to adjust their operating tactics in line with market-growth needs, to exercise management creativity; on the other, it also makes it hard for management to be subject on a larger scale to oversight and restraint by all holdings subjects on enterprise operating activities.

III. Countermeasures to Bring China's Stock Markets Under Control

To ensure that China's stock markets perform their proper functions, we need to take a multibarreled approach, taking practical steps to improve and standardize our stock markets. Our tasks of top priority are:

1. We Need To Focus on Molding Excellent Listed Companies.

When China first started to develop stock markets, share offerings were few, with market supply not up to demand, meaning that listed-company quality had little impact on our stock markets. But after a period of growth, the quality of listed companies will have an ever-greater and more obvious impact on our stock markets. While excellent listed companies do not necessarily mean sound stock markets, the lack of excellent listed companies absolutely precludes sound stock markets.

The current judgement on the quality of China's listed companies varies. Some hold that most of China's listed companies are pretty good quality enterprises, with their grounds being that except for a few companies that were set up in the early stage, most companies that have issued public shares and listed them for trading since 1992 have been above average in their domestic industries (or in their regions), with some listed companies even holding Asian or world status in their industries. But others hold that many of China's listed companies are enterprises with poor efficiency or nonstandard actions, because most listed companies do not provide investors with the expected investment returns. For instance, of the 101 companies listed on the Shanghai Exchange (by 6 December 1993), only 19, or 18.63 percent of the listed companies on the Shanghai Exchange, had aftertax profits of over 0.5 yuan a share, while 14, or 13.73 percent, were inefficient companies with aftertax profits of less than 0.2 yuan a share, with the aftertax profits of most listed companies at 0.2-0.5 yuan a share. On the Shenzhen stock market that is called an "excellent-share market," a 1993 profit forecast for listed companies showed 13 companies with aftertax profits over 0.8 yuan a share, with nearly half of companies making aftertax profits of more than 0.5 yuan a share. While it should be noted that this was somewhat better than the Shanghai stock market, Shenzhen's stock

market showing since 1993 remains less than ideal, with even excellent shares being jokingly called "excellent garbage shares."

So how should we actually deal with the quality of listed companies? I hold that we ought to deal with the matter dialectically. Undoubtedly, all of our current listed companies are generally above-average Chinese enterprises that have gone through a strict screening and selection process in all regions, being excellent enterprises with good economic efficiency, high growth potential, and brisk growth rates. In 1993 in particular, a large group of strong, well-known, and highly efficient large and mid-size enterprises joined the ranks of listed companies. But some enterprises, once becoming listed companies, have considered that everything is fine and that they could just sit back and relax, causing the appearance of certain improper phenomena. For instance, in some listed companies, the powers and responsibilities of shareholder conventions, boards of directors, and senior corporate management have become confused, with shareholder conventions turned into meetings of large shareholders, boards of directors often overstepping their bounds of authority, and boards of supervisors existing in name only; some listed companies appreciate their assets and expand their shares unchecked, raising funds indiscriminately (for speculating in stocks and real estate), and covering up poor operation and management with funding advantages; some listed companies have a hazy sense of information disclosure, particularly not disclosing promptly per regulation annual reports, medium-term reports, and certain crucial matters; yet other listed companies disregard shareholder rights and interests, doing just as they please. For instance, at bonus-sharing times, many use the high-percentage quota-share form, which is listed companies paying interest to shareholders in name, but shareholders sending money to listed companies in reality, leaving investors paying out with no way to acquire the normal payback from enterprises; even in the few enterprises that send out cash bonuses to shareholders, the cash bonuses, compared to investment costs, are still far lower than the interest rates on one-year bank term savings.

As listed-company quality and standardized operation are prerequisites for ensuring steady and sound stock market development, we need to perform the following tasks. On one hand, we need to strictly guarantee listed-company quality, rigorously controlling examination and approval criteria. This has already come to the attention of the pertinent departments. China Securities Overnight Commission President Liu Hongru [0491 7703 0320] emphasized recently that we need to deal thoroughly with the quality of listed companies, with absolutely no carelessness; the Shenzhen Exchange has also stated that when expanding our market scale, we still need to place primary importance on examining the quality of listed companies, absolutely not allowing inefficient companies to get listed on the Shenzhen Exchange through various connections; and departments, such as the State System Reform Commission,

have also recently drawn up clear criteria for enterprises listed abroad, the most important of which is that they must conform to our national industrial policy, as well as having good economic efficiency and foreign exchange earning capacity, so that they can pass the international market test. We are convinced that with the efforts of all parties, our listed companies will make a quality leap. On the other hand, we need to standardize listed-company behavior in line with a modern enterprise system and securities legislation. As quite a few listed companies actually upgrade to shareholding aimed at raising funds and expanding their influence, not treating it as a brand-new enterprise system or looking on shareholders as enterprise owners, they become part of a modern enterprise system in name alone, while lacking the substance and forces of a modern enterprise system.

So our existing listed companies need to focus their efforts mainly on studying changes in market demand and improving their operation and management level, intensifying their self-restraint, acting responsibly toward the large numbers of shareholders, and earnestly safeguarding shareholder rights and interests, using fine operating grades to give shareholders satisfactory returns. In addition, listed companies also need to act in line with international practice in all areas, such as information disclosure, bonus sharing, and the division of labor in their internal organizational structure.

2. We Need To Develop Organizational Investors To Stabilize Our Stock Markets.

An irrational investor makeup is also a key factor affecting the functioning of our stock markets. The most recent data shows that over 90 percent of China's current 25 million stockholders are scattered midsize and small ones, with an extreme shortage of organizational investors. With too large a percentage of decentralized investors and share supply growing too fast, this is bound to produce inadequate "effective demand" which, in addition to limitations in areas, such as funding, technology, and information, easily creates unchecked "going with the tide," to abet stock market volatility.

The way to resolve this problem is: While increasing stock market supply in a rhythmic and selective way (increasing listed companies and the size of stock listings), we need to do all possible to increase stock market "effective demand," to keep our stock market supply and demand basically balanced. To achieve this objective, I hold that developing all forms of funds is a more feasible step.

Since funds, as a composite means of investment, play a decisive role in the stock markets of economically developed countries and regions, they grow very fast. The tiny area of Hong Kong now has over 800 funds; in the last half century in the U.S., fund assets have been growing at a rate of 17 percent a year, with the number of funds also growing at a rate of more than 7 percent a year, bringing current overall fund assets to \$1.4 trillion, or more than

overall U.S. bank savings, with over 3,000 financial institutions engaged in fund management. By the end of 1993, China had set up 45 investment funds, of which 23 were listed on our stock exchanges (centers). This includes some that are far from standard, with some set up merely to encourage certain people to get rich first, some purely in the interests of a certain industry, and others for stock market arbitrage alone. So we need clear standards for future fund establishment in areas, such as fund purpose, fund issue targets, fund operating capital, fund management, and even fund issuing and listing, as well as the necessary oversight and investigation.

Since the participation in stock markets of funds, as a rising means of investment, changes the investor makeup, they help to enhance the stock market's overall sustainability, making stock markets larger in scale and more dynamic. So based on the principle of shared profit and risk, and guided by national laws and the pertinent policies, we need to develop groups of fund listings in a planned way, to add new motivation for the stability and prosperity of China's stock markets, and to find new growth points for our depressed Shenzhen and Shanghai stock markets.

3. We Need To Emphasize Adjustment of Our Stock Market Structure.

While many factors are involved in the sustained decline and functional flaws of China's stock markets, a key one is our irrational stock market structure.

China's irrational stock market structure can be seen in the following areas: 1) Our listed-company structure is irrational. As to industrial structure, most of our current listed companies are in the lines of commerce, real estate, and ordinary manufacturing, while very few listed companies are in industries, such as communications, power, and raw materials; as for the regional structure, most of our current listed companies are located in southeastern coastal provinces and cities, such as Shanghai, Shenzhen, and Guangdong, with listed companies in the interior making up next to nothing. The data up to 12 May 1994 shows that 90 of the 161 A shares listed on the Shanghai Exchange, or 56 percent of all listed A shares, are in local Shanghai listed companies; and 35 of the 99 A shares listed on the Shenzhen Exchange, or 35 percent of all listed A shares, are in local Shenzhen listed companies. 2) Our negotiable-share structure is irrational. The current listings on the Shanghai and Shenzhen exchanges are of individual shares, with very few corporate shares listed on the the STAQ and NET systems, while the state-share listing matter has never been settled. Putting off the resolution of this matter for long will eventually become a great hidden danger for China's stock markets. 3) Our market-layout structure is irrational. We now have only the two exchanges in Shanghai and Shenzhen, both concentrated on our southeastern coast, leaving a gap in northern, south-central, and inland China. As for both quantity and layout, this makes it hard to meet our needs for

further stock market development. In addition, The experience of developed countries with mature stock markets shows that it is neither necessary or possible for large volumes of stock transactions to occur on just a few large exchanges, meaning that we need to set up more "tertiary" or even "quaternary" markets, to conduct share trading through over-the-counter or even phone transactions. 4) Our investor structure is irrational. Most of China's investors are now short-term speculators, while only a few are long-range investors (including some who are forced to be long-range investors due to "conventional thinking"), with too much speculation having become a key factor impacting our stock market stability. Our irrational investor structure can also be seen in that most are decentralized individual investors, with little involvement by organizational investors (such as investment, pension, and insurance funds).

In this setting of an irrational stock market structure, many problems in stock market operations are bound to surface. For instance, investors blindly following the trends creates stock price volatility; our irrational listed-company structure sharpens the distortion of China's industrial structure, while listed companies emphasize "making money" on stock markets at the expense of giving investors rational returns; our stock market profit rate is too high, lacking investment value; large amounts of funds flow from the interior into our southeastern coastal zone, exacerbating our fund-supply imbalance; the same shares have neither the same rights or interests. So to ensure that China's stock markets grow steadily sounder and more standardized, to gradually get on track with international stock markets, we will have to adjust our irrational stock market structure.

China's stock markets have been in a sustained decline for over a year, with obvious changes having occurred in our investor mindset and sustainability, as well as in the actions of listed companies and securities firms, in contrast to the early days of China's stock market development. It could be said that China's stock markets are now at a very crucial turning point, presenting a fine opportunity for structural adjustment. As long as we, premised on protecting investor interests from infringement, take effective countermeasures in line with international practice to adjust these irrational stock market structures, we will be able to raise China's stock markets to a new level.

While the structural adjustment of our stock markets will undoubtedly be a long-term, difficult, and even painful choice, it is the inevitable one for enabling China's stock markets to make the transition from undeveloped and immature to developed and mature.

4. We Need To Pay Great Attention to and Exert Much Energy on Resolving the Excessive-Speculation Matter.

We know that stock markets have two types of investment behavior: 1) Long-range investment, in which

investors buy stocks aimed at earning anticipated dividends and bonuses, with attention paid to the production and operating grades of listed companies. 2) Short-term investment, or speculation, in which investor aims are to profit from stock-price volatility, with attention paid not to the operation and management of listed companies, but rather to share-price short-term volatility and trends.

While a normally operating stock market is one that organically combines long-range investment with short-term speculation, meaning that without normal speculation it is impossible to have a stock market that is full of vim and vigor, excessive speculation can neither exert more pressure on listed companies to speed up the development of the productive forces, or ensure investor interests, rather causing abnormal stock market and economic repercussions, to mislead the investment behavior of stockholders. In this sense, encouraging long-range investment and curbing excessive speculation ought to be our basic aims and points of departure in developing our stock markets.

On China's stock markets at present, excessive speculation has become very evident. There is a common occurrence, such as stock prices being divorced from operating grades [achievements], with excellent stocks given the cold-shoulder while garbage stocks are pursued and extolled, excellence not being valued while inferiority is not devalued, and stock prices skyrocketing and plummeting. In the first 11 months of 1993, the change-of-hands rates on the Shenzhen and Shanghai stock markets were respectively 220 percent and 250 percent, far higher than that on the Hong Kong stock market (135 percent), which is commonly called a "speculation market," giving just a glimpse of our excessive speculation. In China's current ranks of millions of stockholders, over 90 percent are "short-timers," or speculators, while less than 10 percent are long-range investors, quite a few of whom are forced into it (forced into being "longtimers" by the conventional inability to bear "cutting off a piece of their flesh"). So many people of insight are calling from their innermost beings that "China's stock markets need genuine investors."

The reality is grim, alarming, and thought-provoking. While excessive speculation may be unavoidable in the early stages of China's stock market development, letting things slide, by allowing it to continue and expand without finding a general plan to control it, would not contribute to the sound development of China's stock markets, as well as obstructing stock market maturity.

Many factors are involved in creating the excessive speculation on China's stock markets. There are system factors, such as the impact of the inertia role of the traditional system, which involves too much administrative interference in stock markets, distorting stock market issuing and trading behavior; there are also factors in the area of securities intermediary agencies, such as nonstandard actions by agencies, such as securities firms and investment advice agencies, that abet

speculation; there are also factors in areas, such as poor-quality stockholders per se, and lagging stock market legislation; in addition, matters, such as our imperfect dividend-distribution and tax systems, and our too high market profit rate, also dampen the long-range investment initiative of stockholders.

So China needs to steadily improve through practice its stock market-related policies and regulations, standardizing the actions of market players, improving market management and exercising macroeconomic regulation and control over stock markets, creating a good environment for long-range investment by stockholders, and reducing excessive speculation as much as possible, to gradually establish an efficient and steadily growing stock market.

5. We Need To Rationally Adjust Our Stock Market Layout.

China now has only the two stock exchanges in Shanghai and Shenzhen. While these two stock exchanges are playing a key role in the development of China's shareholding economy, they are also producing certain abuses. For instance, the large one-way flow of funds from all inland provinces to Shanghai and Shenzhen, with a limited radiation coverage, makes the existing fund shortages of inland provinces even larger, fosters unchecked striving for high efficiency, creates chaos in our financial order, and sharpens the imbalances in regional development. So in light of China's size, with an imbalance in the economic development of all regions, and backward communications technology and equipment, we should consider appropriately adding stock exchanges by economic region, to meet the needs of China's ever-growing stock markets. Meanwhile, we need to standardize our existing stock-transaction centers. Our stock transaction-centers could be said to have distinct Chinese characteristics, differing from both stock exchanges and over-the-counter markets. Of China's current nearly 20 stock-transaction centers, the ones with many problems need to be inspected and cleared up, while those that are operating in an orderly and standardized way could be upgraded to regional stock exchanges, and those that are severely substandard and unnecessary need to be cleared up and closed down. In addition, as conditions mature, we could institute over-the-counter trading. Over-the-counter markets shoulder the responsibilities of small exchanges, with the services they provide being the same as those of brokers on stock exchanges. Our shareholding upgrade of recent years has produced many leftover problems, such as oriented fundraising and employee shareholding. Unless this large number of stocks has a legal trading arena with rationally dredged channels, it can only abet black market trading and nonstandard market activity. So the pertinent departments need to study the matter conscientiously, drawing up rational plans for the appropriate institution of over-the-counter trading, to resolve certain leftover issues, in preparation for future separate listing of enterprises.

In addition, matters, such as solving the circulation problems of state and corporate stocks, putting securities legislation into effect as soon as possible, further improving our stock issuing and trading systems, taking steps to raise the service quality of securities firms, and cultivating and improving investor quality, all need to be placed on the agenda for resolution as soon and as quickly as possible.

Prestigious British securities experts have predicted that in the next 15 years, the Chinese stock market will become the one with the world's largest market value. I believe that through a decade-plus of efforts, the Chinese stock market will become not only the world's largest stock market, but also one of the world's most complete, standardized, and functional stock markets.

Industry

Statistics on Output of Raw Materials in July HK0209015294 Beijing CEI Database in English 1 Sep 94

[FBIS Transcribed Text] Beijing (CEIS)—Following is a list of the output of raw materials in July 1994, released by the State Statistical Bureau:

Item	Unit	7/94	7/93
Iron ore	10,000t	2032.02	1910.30
Pig iron	10,000t	788.26	744.20
Steel	10,000t	729.55	707.90
Rolled steel	10,000t	632.99	637.19
Ferro alloys	10,000t	17.63	15.36
Coking coal	10,000t	555.79	519.52
Ten non-ferrous metals	10,000t	31.15	29.80
Copper	10,000t	6.07	6.25
Aluminium	10,000t	11.97	11.44
Copper products	10,000t	5.61	5.22
Aluminium products	10,000t	4.33	5.27
Alumina	10,000t	14.55	14.87
Sulphuric-iron ore	10,000t	138.87	140.25
Phosphorus ore	10,000t	249.45	172.13
Timber	10,000cu m	179.28	223.00
Artificial board	10,000cu m	40.18	43.95
Cement	10,000t	3216.93	3088.50
Plate glass	10,000c	920.83	855.61

* Note: t - ton, cu m - cubic meter, c - case

Small-Scale Enterprises

Private Economy Problems, Measures

94CE0660A Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 7, 20 Jul 94 pp 42-46, 53

[Article by Li Xinxin (2621 2946 2946) of the Central Policy Study Office of the CPC: "Development of the Private Economy: Problems and Countermeasures"]

[FBIS Translated Excerpt] [passage omitted]

II. Major Problems in Developing China's Private Economy and Countermeasures

As well as bringing some new changes to Chinese economic life, the rapid development of the private economy has also encountered some new problems, the main ones being:

1. It still constitutes a very small part of the total national economy, and the gap between west and east is growing. Statistics from the State Bureau of Industry and Commerce show that in 1993: only 3.26 percent of China's registered enterprises were private enterprises; 2.5 percent of the nation's total work force were employed in private enterprises; private registered capital occupied 1.6 percent of the total amount of registered capital in society; the gross industrial production output value occupied 1.2 percent of the national total; the commodity retail sales volume was only 1.5 percent of the total commodity retail sales volume in society; private enterprise exports and earning of foreign exchange were just 0.2 percent of the national total of exports and foreign exchange earned; taxes turned in constituted 8.2 percent of the total industrial and commercial tax income nationally. We can see from this that, other than a slightly higher proportion of tax income, the other major indexes are only a very small proportion of the entire domestic economy. Generally speaking, the development of the private economy is far from what it should be. Moreover, private economic development is concentrated chiefly in eastern China. The statistics from the State Bureau of Industry and Commerce also show that in 1993, the number of private enterprises in the east constituted 69.3 percent of the national total, but only 11.3 percent of the total was in the west. There were 21,000 enterprises in the nine western provinces (excluding Tibet), which was only 52.3 percent of the total number in Guangdong alone. In 1993, Guangdong gained 12,000 new private enterprises, bringing that province's total to 39,000 and making it China's leading province in number of private enterprises. China's eastern region had 65 percent of the work force and 77 percent of the registered capital, while the figures for the western region were only 13 percent and 8.4 percent, respectively.

2. But statistics can lie, for the number of "six bogus" enterprises is tending to increase rather than decline. Surveys show that no sector in the nation can provide an

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accurate base figure for every item in the private economy. The major reason is that there are too many "six bogus" enterprises (bogus State-owned, bogus collective, bogus foreign-invested, bogus school-operated, bogus handicapped-operated and bogus school graduates). Opinions from every province and surveys by relevant departments indicate that there are actually three to 10 times more "six bogus" enterprises than there are registered private enterprises. In addition, a State Bureau of Industry and Commerce survey showed that 83 percent of China's township enterprises are privately operated. Another reason for unreliable figures is that as the mixed economy has increased steadily, with various ownership enterprises mixed together in joint investment, stock participation, cooperation and incorporation, etc., it has become very difficult to distinguish a type of enterprise by ownership characteristics. Unreliable figures concerning issues of private enterprise present major obstacles to the state's efforts to precisely control this economic form, and to the state's implementation of macroscopic adjustment and resource allocation in the overall economy. At the same time, it hinders the state in carrying out classified management of enterprises.

3. It has failed to implement national policies, or implemented them incompletely. Although the state have further clarified major policies on developing the private economy, there has been the phenomenon of some departments and areas twisting and delaying implementation. Looking at the situation as reflected in various provincial investigations, the outstanding problems commonly reflected are that private enterprises have considerable difficulty securing loans, using land, exporting products, sending staff overseas, employing college graduates, introducing talented personnel and technology, evaluating professional titles, evaluating product quality and judging classes, and incorporating the state-owned enterprises. The loan problem is particularly outstanding. Based on statistics by banking departments, private enterprises received only 2.3 percent of the total bank loans. Loan from municipal credit unions also occupied only 4.5 percent of credit union loans. Meanwhile, there is a very serious problem with arbitrary allocations, penalties and charges. The majority of privately run enterprises have to cope with nearly 50 types of taxes collected by nearly 30 departments, and some with as many as 80 types of taxes. Besides the "three arbitrary collections" that exist now, a new "three arbitrary collections" have been added, which are arbitrary eating, arbitrary taking and indiscreet robbing. Various kinds of fees paid annually by owners of privately run enterprises are two to three times higher than their tax volume, and this makes them pour out endless grievances. There are examples of this everywhere. This runs counter to the leading idea of fair competition and equal treatment without discrimination which was raised at the 3rd Plenary Session of the 14th Party Conference. There has not only been a failure to completely implement policies, but also some policies

need to improve. For example, a notice sent out by the State Council in the second half of 1993 pointed out that: 35 kinds of commodities are totally barred from wholesale purchasing by privately run enterprises or individual businesses, including polyester cotton, medium or long fibers, short down, rubber overshoes, washing powder, bulbs, woks, nails and lubricating oils. Actually, these commodities have already been opened on the market. In addition, Shanghai documents have disclosed that privately run enterprises are excluded from construction or development of the Pudong new district; so foreign bosses can build new buildings there one after another, while Chinese bosses are not qualified to do so. This was reflected in such areas as Gansu and Liaoning, where "privately owned" was put on receipts, vehicles, etc. It is the principal reason that some departments and areas treat privately owned enterprises unfairly and some imperfect state policies for private owned enterprises are biased toward the "six bogus" enterprises.

4. The property rights and relationships contradiction between labor and capital has become increasingly prominent. With the growth and development of the "six bogus" enterprises, the original motive that private enterprises would obtain political security, suffer less interference, receive protection from local policies and pay less taxes has brought another unexpected difficulty, and that is a lack of clarity in property rights. First of all, external property rights are unclear. For example, there are disputes concerning terminal property ownership for privately run enterprises which originally registered under the title of collective development. In 1992, an increasing number of people were going to court over this. Second is unclear internal property rights. These chiefly involve cooperative enterprises which registered under an individual's name, then added other people's shares: Because these had not carried out asset evaluations and signed legally effective agreements and contracts at the time, once these enterprises developed and their capital expanded, property rights disputes increased. This caused unfair allocation for some, and disbanding for others.

In addition, with the development and expansion of privately owned enterprises, the proportion of hired workers among their employees has grown steadily. Based on the State Industrial and Commercial Bureau's statistics, in 1993, the number of hired workers reached 3.213 million, which was 86.2 percent of the total of privately run enterprises' employees, and a 59.3 percent increase over the year before. With so dramatic an increase in the number of employees, the contradictions between labor and capital became more obvious. A survey of private enterprise employees by relevant departments disclosed that these employees commonly report heavy work loads, long working hours, poor working conditions, and low benefits. They listed "several difficulties" in detail, i.e., difficulty studying for further improvement, difficulty gaining respect, difficulty getting job safety, difficulty improving benefits, difficulty obtaining job security, difficulty joining the

party or the league, difficulty getting medical care and difficulty receiving professional titles. The income gap between employees and owners is quite wide: A survey conducted by the China Social Sciences Institute showed that more than 40 percent of owners' salary levels was over 10 times again that of the average salary of employees in the same enterprises. Various other reasons are added in, so usually there is an unstable employment situation in privately run enterprises, with either bosses firing employees or employees resigning. In addition to these characteristics of employment, this inharmonious relationship between labor and capital in privately run enterprises is also related to employers and employees not signing the necessary labor contracts via legal departments or relevant government departments. This has led to a lack of clarity in the responsibilities, rights and benefits of both parties, and meanwhile, these have no protections. When a dispute arises, there is no basis for solution, and it can only worsen the contradiction.

5. Irregular behavior in privately run enterprises. Because the majority of privately run enterprises are small scale, scattered, and dominated by the labor intensive model, the family operation model, and the make good omissions and deficiencies model, there is a lack of regular and modernized management. This is chiefly manifested in four ways. One is poor basic work. Many enterprises do not have rules and regulations, do not set accounts or enter fake fiscal accounts; their plant buildings are simple and poor, and their facilities and technical circulation do not meet environmental and health protection requirements; their products are low in quality, and many of their commodities are fake; they have a higher rate of employee death and injury incidents; they have significant problems with woman employees suffering sexual harassment. The second problem is a serious incidence of tax evasion. Based on investigation by relevant departments, the rate of privately run enterprises involved with tax evasion exceeded 90 percent. The third problem is enticing and corrupting government officials. In order to resolve such problems as raw materials, markets, loans, reducing or remitting taxes, etc., some private enterprise owners have tried to open a route by money, taking advantage of a national policy loophole by offering sales commissions, sending gifts, etc. to corrupt government officials in order to make illegal profits. Some even intimidate people by flaunting their officers' powerful connections to dominate their industries and markets, and so damage the nation's and consumers' benefits. The fourth is short term behavior. Some business owners have made big money, but instead of expanding their enterprises, they have put their capital into consumption areas. Some go in for major construction, building fancy residences, or they renovate tombs to make fancy underground palaces. Some indulge in ostentation and extravagance, spending without restraint. Some gamble endlessly, divorce their wives and keep mistresses.

The principle factors causing the above problems are: 1) the interference of "leftist" ideas that still exist in

society, and the problem of belonging to "socialism" or "capitalism" has not been resolved yet, therefore, some people are always overcautious concerning the development of privately run enterprises; 2) our incomplete legal system, a lack of strictness in law enforcement, and lack of compliance with the laws that do exist; imperfect, unfair policies and incomplete implementation, leaving policy loopholes; an unsmooth management system, and inappropriate management methods; 3) the lingering fears of private enterprise owners: They fear that privately run enterprises will be incorporated into public ownership enterprises; they fear becoming capitalists, frequent policy changes, conflicting policies, being discounted in the implementation of Central Government policies. These problems all restrict and affect the development of privately run enterprises.

Therefore, this could be fatal to thorough implementation of the spirit of the 3rd Plenary Session of the 14th Party Congress, especially the standard of the "three advantages," standing on the principles of fair competition and equal treatment of various ownership economies, gradual establishment of a new environment for the socialist market economic system with a complete policy, legal system and regular management, promoting the healthy development of privately run enterprises.

As for the policy environment, (1) implement completely every reform policy measure which has been issued, as well as gradually perfect every currently existent policy. In accordance with the principle of fair treatment, let the privately run economy have equal treatment in taxation, loans, export and trade, operating sites, etc., with the state-owned, collective and "three capital" economic forms. It should share on at least an equal footing the same treatment as foreign capital enterprises in such matters as operating scale, operational form, varieties and taxation, etc. Try to create a fair competition policy environment, with the superior winning and the inferior being eliminated, truly achieving reasonable circulation and perfected allocation for the production elements in order to reach a fundamental resolution of the "six bogus" problem. (2) In accordance with the state's overall requirement for regional combination, industrial mix and product mix development, strengthen policies which lead to development of the privately run economy. There are economic levers such as loans, taxation and interest rates, etc. which encourage the development of industry and product trends, but are not biased toward ownership. The first step is to formulate a regional economic development policy that will alter the current, significantly unbalanced developmental situation for the privately run economy in the eastern, central and western regions. In the west, we should adopt policy measures which are tilted towards pushing a rapid start for the privately run economy. In the east, we should encourage privately run enterprises to develop on a large scale, high class and standard, in accordance with the model for a modern enterprise system. Let groups of

developed, privately run enterprises change their operational activities from family activities to societal activities, making a transition from blood-bound relationships like a couple's store, a father-son store or groupings of relatives, etc. to relationships which are bound by economics. The second step is to use a guiding policy to lead the flow of private capital, controlling privately run enterprises from transferring too much of their capital into the consumer sector. That part of the privately run enterprises' after-tax profits which are used for individuals' living consumption can be regulated further through such economic levers as tax collection. For instance, stipulating a property transfer tax (inheritance, turning over), etc. as an economic lever to redistribute by means of taxation. This will encourage them to develop production, expand the scale of their operations and curb excessive consumption. Therefore, even though the number of billionaires is growing, this is not something to be frightened about. According to basic Marxist principles, so long as capital continues to circulate in the societal reproduction process, its ownership in the legal sense does not matter. This is because at this time private means of production and publicly owned means of production both mean a growth in materials, property and employment in society and increased state tax revenues, these kinds of property are both socialized property. Only when this kind of socialized property departs from the production area and goes to personal consumption will it lose its meaning as socialized property. Therefore, if the state can better regulate the flow of privately owned capital by means of policy guidance, the comprehensive and rapid increasing of privately run economy will have more important significance in developing the domestic economy.

The third step is to adopt the standard of "three advantages," further regulating some policies which lag behind market economic regulations. First of all is to allow pluralization of the privately run economy. Just as with the state-owned and collective economies, with the continuous establishment and improvement of the market economic system, the privately run economy also requires in the reforms continuous exchange and a regulated operating system, a property rights mix and organization form. The state should permit privately run enterprises to conduct economic cooperation and joint ventures across industries and regions with the state-owned, collective and foreign capital enterprises through such forms as leases, contracts, joint investments, shareholding and incorporation, etc. Have privately run enterprises transfer to groups, going the road of scale operations. In addition, we should allow the privately run economy to conduct trials of non-state-owned financial organs. This would allow privately run enterprises to organize and establish urban and rural credit unions or create through shareholding banks run by local people. It would not only stop the occurrence of high interest lending and illegal money sources, it could also find a

self-preserving route to mediating privately run economic capital, creating capital sources for privately run enterprises to expand reproduction and invigorate capital and financing.

Regarding the legal environment, one measure is to implement each item of current legal regulations completely, creating a better social order and economic order for effectively guaranteeing privately run enterprise's legal operation and regular production via legal measures. Two is to stipulate, revise, supplement and improve some items involving the laws and legal regulation. We should supplement the legal articles on labor-capital relations, social security, private property protection and private owned property rights' ownership. If the law can affirm that "privately owned property in the current stage of socialism will be protected by the law as long it is legally obtained, and cannot be infringed just as publicly owned property cannot be infringed," then the private operators will not worry about their property being taken away, their behavior will not be short term and they will concentrate their energy on maximizing the benefits of their own capital. So, supplementing and improving the relevant laws will not only relieve their fear of later labor and capital disruption and their short term behavior, it will at the same time clear away obstacles to mutual transfer and flow between labor and capital in various kinds of ownership. Three is to protect seriousness, regularity, stability and continuity. We must strengthen effectiveness of laws and regulations on auditing, statistics, accounting, labor, taxation, trademarks and the protection of consumer rights and interest protection, etc. to stop the ugly phenomenon of some privately run enterprises evading taxation, smuggling and selling smuggled, fake and poor quality products, cheating, violating human rights, etc. We should also strengthen legal supervision of government departments and law enforcement officers. This will clean up the social environment while giving investors and workers in privately run enterprises a stronger sense of security and greater confidence.

Concerning the administrative environment, one needs to reorganize the administrative system and transfer administrative functions in accordance with the operating laws of the market economy. It is necessary to alter the current situation of overlapping, duplication and shortcomings, which are due to weak administration, multi-source policies and inefficient cooperation. One must bring the privately run economy into the overall domestic economic macroscopic administrative plan, carrying out planned and supervisory administration. The focus is to strengthen tax, industrial and commercial, auditing, finance and labor departments through monitoring and service via economical and administrative means. We should let the privately run economy develop with regular behavior and an orderly environment.

Two is to establish a system of restrictions among government departments, with a serious approach to

party discipline and style. There must be an absolute ban on corrupt behavior by government administrators who seek private benefit as their right, the bad phenomenon of "irresponsible charges, irresponsible assessments and penalties" and eating, grabbing, blocking, soliciting and robbing from privately run enterprises. As we require that privately run enterprises "love the nation, devote themselves to business and comply with the law," government officers should first of all act pure and clean, and practice self discipline.

Three is to bring the functions of intermediate organizations into full play, which is the bridging and linking function of industrial and commercial associations, privately run enterprise societies, trade societies, business societies and same trade societies, etc., and the uniting, servicing, coordinating, supervising and self discipline functions. The experience of the privately run economy's development in the past several years proves that it is a positive and effective way to coordinate social contradictions by means of democratic consultative means. And that is precisely the role the intermediate organizations play in connecting, coordinating, self-discipline and self-service that other administrative departments cannot do for privately run enterprises complying with national laws, in such matters as monitoring their products' quality, coping with disputes in societal exchange (connection), replacing and improving enterprises' managerial and technical levels, etc.

Foreign Trade, Investment

Further Reform of Foreign Trade, Investment Urged

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[Article by Wang Dongjing (3769 2639 0079), Economics Department, CPC Central Party School: "Analysis of the Policy for Developing China's Foreign Economic Relations"]

[FBIS Translated Excerpt] Opening to the outside world is necessary to the internationalization of economic life, and it is also a basic national policy that China must maintain for a long time. During the past decade (and even before), China's foreign economic relations have developed extremely rapidly, and achievements have been made for which the country can be proud. Nevertheless, it cannot be denied that some of the country's foreign economic policies still show certain shortcomings and limitations requiring further reform and improvement. This article will make a theoretical analysis of policy problems in China's development of foreign trade, making the renminbi freely convertible, and bringing foreign capital into the country. It will also offer commensurate suggestions for the reference of government policymakers and theoreticians.

1. China's Foreign Trade Should Say Good-bye to the "Forced Export" Model

China's foreign trade may be said to be still following basically a "forced exports" road in which: 1. Economic growth requirements determine the scale of imports; and 2. The scale of imports determines the scale of exports. This is a special foreign trade relationship, which we might term a forced exports foreign trade model.

China's long use of the "forced exports" model of foreign trade is related directly to its formerly highly centralized planned economic system. Under the traditional planned economy system, speed of economic growth became the main goal of economic development. However, what we pursued for a long time was a closed economic system that could not produce widespread foreign trade, and that excluded the direct and indirect investment of foreign capital. Therefore, in order to maintain a high economic growth rate and steady progress in building the technological foundation for economic development, China had to force the importation of large amounts of packaged technology and equipment. Furthermore, the country's sources of foreign exchange were always extremely limited. In order to maintain the scale of imports needed for growth, the country had to resort to forced fulfillment of export plans; otherwise, imports would dry up. Therefore, given the closed economic circumstances, the country's international balance of payments had to rely on exports; thus, exports had a forced character.

If we compare our country's foreign trade with the foreign trade of other market economy countries, we see the following: 1. China's foreign trade, particularly exports, rests not on the existence of sufficient supplies in the domestic market, but rather on insufficient supply and excessive demand. However, for many market economy countries, the force that drives exports is saturation of the domestic market. 2. The dominant element determining China's imports is the size of its exports. Most market economy countries—particularly small countries—enjoy a lot of flexibility about what they import, and their exports are not completely determined by import pressures. 3. China's exports are of the static type. Export volume is more important than product mix and make-up. For many market economy countries, however, exports are relatively dynamic. They are not so subject to size constraints. They have room for adjusting the mix and make-up.

Since the beginning of the 1980's, as the extent of the country's opening to the outside world has steadily risen, China's foreign trade has advanced by leaps and bounds, but no fundamental change has occurred in the country's traditional foreign trade model. Moreover, the long existence of this "forced exports" trade model has posed three major difficulties for the country's economic development: 1) The steady expansion of import demand has caused too rapid an increase in demand for foreign exchange. Despite the forced increase in the scale or

exports, this demand is still difficult to satisfy. For a long time to come, it is bound to make China the most foreign exchange-short nation in the world. 2) The general domestic market shortages are worsened by the compulsory expansion of exports. Without full improvement of domestic market supply, exports will face a complete crisis. 3. Narrowing the gap with developed countries through imports carries overly high costs and overly large risks. Therefore, faced with the above three real difficulties, we believe that reform of China's long-standing forced export trade model is a top priority matter. The measures used to deal with this matter should focus on handling of the following relationships:

1. Good handling of the relationship between exports and imports. Exports and imports are two sides of the foreign trade coin. Generally speaking, exports are the main challenge in foreign trade. The quantity, scale, and orientation of exports limits the scale and orientation of imports. This is because no matter whether it is goods, labor, or technology that is imported, payment must be made in foreign exchange or gold. Since gold is universally a symbol of a nation's wealth and a means of storing wealth, foreign exchange becomes the main means of payment. But exports are the main way to obtain foreign exchange. Therefore, in developing exports, the principle of figuring exports for the sake of imports, and exporting in order to import must be followed. For this reason, we must further rectify the relationship between speed and returns, not pursuing high speed development when it brings no return, much less pursuing mindless high speed development and excessive exports, thereby forcing ourselves to export. In addition, the government must give more foreign trade decision making authority to enterprises, genuinely turning over to enterprises the authority to import and export goods. Enterprises having foreign exchange (or who buy foreign exchange on the market) should be able to import. Otherwise, they may not. This will help relieve the government of the heavy burden of responsibility for enterprises' use of foreign exchange, and it will also fundamentally ease forced exports pressures.

2. Good handling of the relationship between foreign trade and domestic trade. Output of most goods is limited, and both international and domestic markets want them. This produces a conflict between foreign trade and domestic trade. The more exported, the less is available for consumption, and the more consumed, the less is available for export. A comparative benefit analysis must also be made about the export of such goods. If the goods obtained in return for their export has a greater value and use value, their export should be encouraged. Otherwise, there is no need to export them. Imports must also be chosen on the basis of domestic need. In importing, priority should be given to commodities for which the international market price is relatively low and domestic production costs are relatively high, imports substituting for domestic production. This allows the country to shift limited production resources

to the production of goods from which the relative advantage is rather great in order to obtained the maximum economic return.

3. Proper handling of the relationship between imports and the protection of domestic industry. Excessive imports may lead to forced exports as well as foreign takeover of the country's own markets for industrial goods, thereby impairing the country's industrial development and ability to export. Therefore, special attention must be given to protection of the country's economy, particularly the development of indigenous industry. Expansion of exports must be premised on helping foster the export capabilities of domestic indigenous industries. Of course, protection of indigenous industry does not mean complete isolation and special nurture and protection, but the adoption of specific and limited protection measures. Greater protection must be afforded newly developing indigenous industries in their infancy. Appropriate protection must be afforded mature indigenous industries. Protection for advanced indigenous industries may be relinquished, and these industries should be encouraged and urged to compete in international markets. [passage omitted]

3. China's Need To Improve Intangible Investment Climate To Attract Foreign Capital

The attraction of foreign capital is an important part of China's opening to the outside world. Nowadays, people realize that the amount of foreign capital that can be attracted does not depend solely on a government's intentions, but more importantly on the country's investment climate. However, both intangibles and tangibles make up the investment climate. The tangible investment climate includes infrastructure such as transportation, communications, and water and electricity supply. The intangible environment includes the operating environment made up of the production elements markets including finance, manpower, and land. Formerly, in discussing improvement of the investment climate for making use of foreign capital, we frequently emphasized only tangible environmental factors such as transportation, communications, water, and electricity. We did not pay much attention to the intangible market and operating environment. Actually, supplemental loans and assistance loans from foreign governments and international agencies aside, market and operating environment requirements for all other forms of foreign capital entering China, particularly foreign investment by private individuals, are very high.

The realities of China's importation of foreign capital show that at the beginning of reform and opening to the outside world, most of the foreign capital we used came from foreign agency and bank loans. However, with the steady intensification of reform, the percentage of indirect and direct foreign investment has steadily increased in recent years. Therefore, though one may say that market and operating environment problems attending the use of foreign capital during the first half of the

1980's were not pronounced, we can no longer evade this problem today. This is because, without a consummate market environment, attracting more foreign private individual investment seems merely wishful thinking. For example, the domestic short-term funds market situation suggests that so long as short-term funds remain a part of the plan credit system, it will be very difficult to form a true market for so-called interbank call loans, whether the form or the amount of such loans. Discounting of commercial paper today is also primarily for the purpose of clearing up loans on which payments are in arrears or that should not have been made. Just as soon as money becomes short or the money supply is tightened, enterprises will face difficulties in having nowhere to go to ask for working capital loans. When money became tight during the second half of 1993, foreign traders had trouble understanding how banks could continue to exist when they had no money to lend business concerns but did not go bankrupt. A further look at the relationship between banks and enterprises shows that in a market economy, both banks and enterprise must compete. Banks may select the enterprises with whom they will do business, and enterprises should also select the banks with which they will do business. With the increase in banking institutions in China and their overlapping business, although competition has begun among banking institutions, banks power to select enterprises is far greater than enterprises power to select a bank. This puts banks in a special seller's market position. When banking institutions lack strong competitive pressure, the quality of their service and their work efficiency are bound to be low. Foreign traders say that the poor service and work efficiency of our banks frequently causes considerable financial losses for customers.

Delay in developing China's manpower markets is also an operating environment obstacle to our attraction of foreign capital. Foreign traders who invest and build factories in China are bound to want to hire technical workers of fairly good caliber and senior managerial personnel in China, but we do not have such a manpower pool, nor do we have developed manpower markets. This causes problems in the form of foreign-owned enterprises and domestic enterprises—particularly state-owned enterprises—vying with each other for high level manpower. Since the movement of manpower in state-owned enterprises today is still bound by the former manpower personnel system, residence concerns, wage concerns, organizational concerns, and housing problems restrict the movement of manpower to a certain extent. Thus, foreign-owned firms in China are frequently at a disadvantage in the hiring of Chinese manpower. They are unable to compete as equals with domestic concerns. Therefore, we say that the lack of manpower markets is an important, unfavorable element in the operating environment that puts China at a disadvantage in the use of foreign capital. In addition, the lack of fully developed foreign exchange markets and

the unstandardized real estate market creates a certain amount of hardship for the entry of foreign capital.

Since China's market environment cannot satisfy the needs of firms in which foreign traders have invested, what is to be done? Several years ago it was suggested that preferential policies might be used to create a "mini-environment" for foreign investors. The government concurred with this recommendation. Nevertheless, practice in recent years shows that policy preference for foreign investment is as much a waste of effort as carrying buckets of sand to fill in the sea. Furthermore, such a policy may be exploited by a small number of opportunistic foreign businessmen and some domestic firms to take advantage of loopholes in the country's policies. For example, some foreign traders may have no intention of investing in enterprises in China until our market environment has been substantially improved; nevertheless, they want to enjoy a series of preferential policy treatments provided foreign-owned firms such as tariff reductions and exemptions, or tax preferences. Some domestic firms also do everything possible to build relationships with foreign investors in order to enjoy special preferences that domestic concerns may not enjoy. Consequently, driven by the joint interests of the above two interest groups, false joint venture enterprises have appeared in recent years. Some concerns claim to be Sino-foreign joint ventures when no foreign capital has been invested. Such firms simply batten on the name "joint venture" to dine with foreign businessmen in a special state-run mess at the expense of the state. Not only does such a practice disturb the country's internal economic order, but it also impedes normal progress in the country's opening to the outside world.

Positive and negative experiences internationally have shown preferential policies to attract foreign investment have not been entirely effective. In Africa and the Caribbean region, for example, because of the rather poor market and operating environment, the somewhat preferential policies of many countries to encourage potential foreign investors did not attract much direct investment. By contrast, several newly industrializing countries in Southeast Asia (such as Singapore and Malaysia) provided no preferential policies, yet they gained a large capital inflow because of their fine market and operating environment. Obviously, when it comes to attracting foreign investment, a country's markets and operating environment are of supreme importance. Actually, during the past more than a decade, China has scored very great result in attracting foreign investment. Certainly, the substantial speed and scale of this investment did not occur because of a few preferential policies. It must be regarded as the result of the steady intensification of the country's economic system reforms and the steady improvement of the domestic investment climate.

Since preferential policies have not been the main factor driving the country's past foreign investment, they will not become the main means for bringing in future foreign investment. Therefore, building and perfecting a

fine market and operating environment in keeping with international business standards is the only choice for the country's future importation of foreign investment. Furthermore, the building of a fine market and operating environment in keeping with international business standards means the country's production element markets must be completely open to allow the elements of production to flow completely freely. This course has had proven effect in theory, in practice, and in international experience. Thus, we must continue to intensify reform to move a step upward in the task of bringing in foreign investment.

Japanese Investment Patterns Viewed

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[Article by Qiao Rongzhen (0829 2837 6297) and Xi Zhong (2569 0022) of the University of International Business and Economics: "Characteristics and Trends of Japanese Investment in China"]

[FBIS Translated Text] China's rapid economic growth in recent years has aroused close attention from various nations in the world. China's GDP in 1992 rose 12.8 percent over 1991, and the growth rate during the first six months in 1993 exceeded 14 percent. With the development of the socialist market economy and the deepening of the reform and opening-up program, the amount of foreign investment in China has been continuously rising. Amid the worldwide economic recession, China is often called the "new center for world economic growth."

After Comrade Deng Xiaoping's talks in South China was made public, the amount of foreign and overseas investments in various parts of China has rapidly

increased. The number of newly approved projects with foreign capital reached 83,265, the negotiated value of foreign capital totalled \$110.8 billion, and the amount of foreign funding actually used stood at \$25.759 billion in 1993, marking increases of 70.68 percent, 90.7 percent and 134 percent respectively over the previous year. As for the countries and areas where investments come from, Hong Kong and Macao area accounted for 71 percent of the total number of investment projects. The Hong Kong-Macao area ranked at the top in terms of the total amount of investment, accounting for 64 percent. Taiwan's investment in China also grew in 1992. Taiwan ranked second in the number of investment projects and third in the amount of investment. Japan's investment in China only ranked fourth, next to the Hong Kong-Macao area, Taiwan and the United States. The amount of Japanese investment in China also ranked fourth, next to the Hong Kong-Macao Area, the United States and Taiwan.

We like to briefly analyze and discuss the characteristics and trend of Japan's investment in China in recent years as follows:

I. Japan's Three Upsurges of Investment in China

The period between 1979 and 1983 was the initial stage in which China carried out the readjustment, reform and opening-up program. All kinds of decrees, laws and regulations were just promulgated. It was an experimental and exploratory stage to attract foreign capital. During these five years, there were not many Sino-Japanese investment projects. There were only 52 projects with Japanese investment. It was an embryonic stage with an average of ten projects per year. Later, with the development of the reform and opening-up program, China had registered three upsurges of Japanese investment one after another.

Table I. Trend of Investment of Japanese Enterprises to China

	Number of Projects	Annual Growth Rate	Amount of Contract(US\$100 million)	Annual Growth Rate
1987	113	20.2%	3.01	43.3%
1988	237	109.7%	2.76	8.3%
1989	294	24.1%	4.39	59.1%
1990	341	16.0%	4.57	4.1%
1991	599	75.7%	8.12	77.7%
1992 (Jan to Sep)	1116	189%	16.2	304%
Total at end of Sep 1992	3005		54.2	

Source of information: Yearbook of Foreign Economic Relations and Trade

1. First Upsurge of Investment (1984-1986)

Following the establishment of various policies, laws and regulations, the implementation of the policy of opening up the coastal areas and the appreciation of the Japanese Yen on the international monetary market, Japanese investment to China had somewhat increased. The

number of investment projects from various countries and regions to China totalled 3,073 in 1985 of which 127 were Japanese, ranking second. However Japan still lagged far behind the top-ranking Hong Kong-Macao Area (with 2,631 investment projects). There were already some enterprises with Japanese capital in China's coastal areas. These enterprises used the coastal

areas as a production base to assemble and turn out products for exports. For example, the Hong Kong Sanyo Electronics Company set up a semi-conductor assembly and processing plant in Shenzhen in September 1984. For several years, it had reaped good profits.

2. Second Upsurge of Investment (1988-1989)

In October 1986, the "State Council Regulations To Encourage Foreign Investment" was first implemented, and the economic development zones in China's coastal areas had further expanded. Infrastructural facilities were continuously improved; laws and regulations were gradually made perfect; and measures were taken to simplify the procedure for examination and approval. All this has brought about the second upsurge of Japanese investment to China. From Japan's economic point of view, Japan's profits were relatively lower in its investments in other areas and countries in Asia such as Taiwan and Korea, because of the drop of interest rates and the increasing wages there. Japan's entrepreneurs began to realize the need to divert their attention to China. This had also greatly helped increase Japanese investment to China during that period. For example, the Dalian Seiko Electronics Co. Ltd. is a joint venture set up by Japan's Seiko Electronics Industrial Co., Ltd. in Dalian during 1989 for the production of electronic components such as the wrist watch parts. The well-known Snowflake Brand refrigerator was produced in March 1989 by a joint venture set up by Japan's Hitachi Ltd.

3. Third Upsurge of Investment (1991 to present)

After China's economic overheating in 1989, its economic situation had turned for the better in 1991. At the beginning of 1992, Comrade Deng Xiaoping's talks in South China were made public. The 13th National CPC Congress had adopted the principle in building the socialist market economy, and China's opening up policy was further implemented. All this had helped China open even wider to foreign investment.

As far as the world economy is concerned, the summer of 1993 had witnessed a new era of exchange rate of \$1 for 100 Japanese Yen. The sharp rise of Japanese Yen in value and the world's economic depression had further pushed Japanese enterprises to invest in China. During that period, Japanese enterprises rushed to China to invest. As shown in Table I, both the number of investment projects and the negotiated value of capital from Japan in 1991 rose about 76 percent over 1990. The rate of growth had further increased since the beginning of 1992. Between January and September 1992, the number of investment projects reached 1,116, approximately three times of that in the same period in 1990.

The negotiated value of Japanese capital reached \$1.62 billion, four times of that in the same period of 1991. According to statistics compiled by the Ministry of Foreign Relations and Trade, the number of projects with Japanese capital reached 3,005 at the end of September 1992 with the total contracted capital reaching \$5.42 billion. Japan ranked fourth on both occasions trailing behind the Hong Kong-Macao Area, the United States and Taiwan in terms of the number of investment projects and the amount of contracted capital. However, as seen from the number of business permits and the amount of actual investment, Japan invested \$3.39 billion and ranked second just behind the Hong Kong-Macao Area which invested \$25.4 billion in China. As seen from the rate of contracts put into execution (the ratio of the total amount of capital under contract and that actually put into use), Japan's 64 percent far exceeded the Hong Kong-Macao Area (48 percent), the United States (45 percent) and Taiwan (25 percent).

II. Characteristics of Investment From Japanese Enterprises

1. The investment area is rapidly expanding.

After the third upsurge of investment, new characteristics of Japanese investments to China had appeared. Prior to this, most of the Japanese investment was in China's coastal cities north of the Yangtze River such as Dalian, Beijing, Tianjin and Qingdao. The number of investment projects and the amount of total investment in Shanghai and Beijing accounted for 14 percent, 16 percent, 14 percent and 19 percent respectively. As compared with these figures, the number of investment projects in Dalian accounted for 30 percent and the amount of investment 46 percent. Dalian ranked first either in the number of investment projects or in the amount of investment. The reason is that Dalian, located at the entrance of the heavy industrial base area in Northeast China, has close relations with Japan both historically and geographically. Many of the local people understand Japanese, making things easy for the Japanese enterprises. Recently following the increasing wages and land price in China's coastal areas, Japanese enterprises started to make more investment in inland areas such as the Pearl River Delta, Xiamen, Fuzhou and other districts in South China, the Hebei Province, Hubei Province and Sichuan Province and in the development zones in the suburbs of large cities. For example, some development zones such as the Songjiang County and the Baoshan County in suburban Shanghai and the 12 economic development sub-districts in suburban Dalian with the Shenyang-Dalian Highway as an axis also find favor in the eyes of the Japanese investors. (See Table II)

Table II. Distribution of Japanese Investments to China

Japan		
municipality directly under the Central Government	number of investment projects	overall percentage(%)
Beijing	194	10.5
Tianjin	101	5.5
Shanghai	231	12.5
Subtotal	526	28.5
Coastal Areas		
Hebei	21	1.1
Liaoning	642	34.8
Jiangsu	100	5.4
Zhejiang	40	2.2
Fujian	60	3.3
Shandong	57	3.1
Guangdong	186	10.1
Guangxi	4	0.2
Hainan	13	0.7
sub-total	1,123	60.9
Inland Areas		
Shanxi	4	0.2
Inner Mongolia	5	0.3
Jilin	52	2.8
Heilongjiang	69	3.7
Anhui	4	0.2
Jiangxi	2	0.1
Henan	7	0.4
Hubei	5	0.3
Hunan	5	0.3
Sichuan	15	0.8
Guizhou	1	0.0
Yunnan	2	0.1
Tibet	1	0.1
Shaanxi	15	0.8
Gansu	2	0.1
Qinghai	—	—
Ningxia	—	—
Xinjiang	7	0.4
Sub-total	196	10.8
Total	1,845	100.0

Source of information: General Survey of Export and Import Enterprises in China Compiled by Japan's Mitsubishi General Research Institute

2. Investments become more diversified in trade.

Japanese investments are mainly made in labor-intensive assembly and export-oriented enterprises such as the fiber and food industries. For example, the Dalian Canon Office Equipment Co., Ltd. exclusively funded by Japan's Canon Co. Ltd. went into operation in February

1991. This company mainly turned out cartridges for office copy machines. It imported raw materials from abroad, hired young people around 20 years old in Dalian's neighboring areas and paid them low wages. All the products were exported. All the frozen and instant foodstuff produced by the Dalian Mishima Co., Ltd. are for export. In addition, investments in industries in

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production of refractory and building materials so as to insure the continuous supplies of raw materials were also on the increase. For example, the Huaneng-Onoda Cement Co., Ltd. with the joint investment from Japan's Onoda Cement Co., Ltd and Mitsui & Co., Ltd. and China's Huaneng Raw Materials Co., Ltd and Dalian Cement Factory went into operation in July 1992. It made use of the limestone in the Dalian area to turn out approximately 1.4 million tons of cement a year. A large portion of the cement produced is for export.

Following the relaxation of China's trade restriction for foreign investment, the amount of foreign investment in the manufacture of machinery and electrical equipment and in the fields of electronics, precision instruments and transportation equipment has increased. The rapid development of China's tertiary industry has also helped encourage foreign investments in banking, real estate, retail sales, storage and transportation. For example, the opening-up of the banking industry has attracted a large number of Japanese financial institutions to set up their branches in China. There are two such branches in Dalian, one in Qingdao, six in Shanghai, one in Guangzhou and four in Shenzhen (footnote 1). The Tokyo Marine and Fire Insurance Co., Ltd. has set up the first office of Japanese funded enterprises in Shanghai. Other insurance companies have also set up their offices one after another while awaiting permits to set up their branches.

As for the manufacture of cars, due to the appreciation of the Japanese Yen, the saturation of Japan's domestic market and U.S. restrictions on Japan's car exports to the United States, Japan's car manufacturers have changed their idea of producing cars in Japan for sale in China and begun to show interest in investing in China's enormous market. Right now, car companies such as Isuzu, Suzuki and Mazda have begun to set up joint ventures to start manufacturing trucks and sedans. The Daihatsu Industrial Co., Ltd. has also begun to increase its car output through the Tianjin Automobiles Industrial Co by providing the latter with technical cooperation. Although Toyota, Mitsubishi and other car companies are still in the stage of technical cooperation, they too have begun to discuss specific joint venture projects.

As for retail trade, Japan's international circulation group Yaohan with its headquarters in Hong Kong is the first enterprise with its eyes on China's consumer goods market. It has run supermarkets in Beijing, Shanghai and Shenzhen. The Yaohan Department Store which has established a joint venture in Shanghai's Pudong Area with Shanghai's First Department Store is the largest overseas branch of Japan's Yaohan Company. Kazuo Wada, President of the Yaohan Company, had expressed his full confidence in setting up 1,000 Yaohan department stores in China by the year of 2010. Japan's Isetan Department Store also set up a Shanghai Isetan Department Store on Shanghai's Huaihai Road in June 1992 and another department store in Tianjin in 1992. Seibu

and Mitsukoshi, top-rated retail stores in Japan, refuse to fall behind the others. They are eager to enter China's consumer goods market.

3. More investments on consumer goods markets.

Following the expansion of China's domestic market and with its rising standards in consumption, one of the major points that attracts the Japanese investment recently is China's huge consumer goods market. For example, in the field of home appliances, the Matsushita Electrical Industrial Co., Ltd. and the Chinese side had set up, as early as in 1987, a joint venture to manufacture color television picture tubes with a 50-50 percent share. It had also set up joint ventures in nine locations in China. In addition to South China and the coastal areas, it plans to extend its business activities to China's inland areas. Right now, other investment projects are being developed including Sharp's air conditioners, Hitachi's air conditioner compressor units, JVC's audio equipment, Matsushita's video tape-recorder heads, Sony's 8-mm video cameras and so on. As for foodstuff, there are Japan's Nissei Oil Mills Ltd., which is famous in producing cooking oil, the Kotobuki Confectionery Co., Ltd., and the Nissin Confectionery Co. Ltd., which began to turn out biscuits in 1992 and so on. Japanese investment also grows in the manufacture of articles of everyday use (cosmetics and shampoo), medical instruments and equipment.

4. Investment in larger scale and varied forms.

From the investment scale point of view, the majority of Japanese investment is of medium and small scale. Investments mainly in the manufacture of home appliances, in the manufacturing industry and in the manufacture of raw materials such as cement have increased the overall investment scale. The average investment of a project was \$1.34 million in 1990, \$1.36 million in 1991 and \$1.45 million in the period between January and September in 1992.

As for the form of investment, the overwhelming majority of the investment projects are joint ventures. In recent years, there were more investment projects with exclusively Japanese-funded capital, while there were fewer investments in the form of joint ventures. Most of export-oriented enterprises turned out advanced and new technological products. However, the opening-up of China's domestic market has made many Japanese enterprises pay more attention to selling their products in China. In order to expand their market in China, more Japanese enterprises hope to have Chinese partners with established sales channels in China. Enterprises which used to provide technical cooperation, place orders with Chinese enterprise for the process or manufacture of products, or engage in compensation trading have gradually changed their forms of business to establish joint ventures with Chinese partners. In addition, some enterprises with Japanese capital set up branches in Hong Kong and establish factories in South China or use Hong Kong as an entrepot port for the products which they

have ordered from the Chinese enterprises in order to reduce their investment risks.

5. Previous investors tend to increase their investments.

Riding the "east wind" in China's economic development in recent years, most the enterprises with Japanese capital in China during the early days of the opening-up program made good profits. A number of enterprises which made investments for three to five years had begun to expand their facilities in China, and entered their second stage of investment. For example, with the expansion of China's domestic market and the allocation of a larger proportion of their export products for domestic consumption in China, enterprises with Japanese capital had continuously enlarged their production scale and diverted their attention to their Chinese consumers. Let us take Japan's Kanebo Co., Ltd. as an example. It operated on a small scale and only produced women's silk stockings at the beginning. Right now, it has increased its capital on nine occasions. In addition to women's silk stockings, it also produces socks for men and other products and expanded its production facilities. In order to produce socks for men, it needed machinery for dyeing and other related facilities. For this, it had established four joint ventures including a dyeing department and another for computer software. Both the Dalian Canon Office Equipment Co., Ltd. and The Dalian Toshiba Co., Ltd. have entered the second stage of capital increase.

III. Trend for Investment by Japanese Enterprises

1. China remains a hot spot for investment from Japanese enterprises.

A survey conducted by a Japan-China institution which promotes Japanese investment in China (footnote 2) indicated that 70 percent of the enterprises made good profits; 37 percent of them had always made profits since they went into operation; and 34 percent of them had shown a turn from loss to profit. In short, 70 of enterprises registered profits. In addition, 90 percent of enterprises begin to make profits after starting their businesses for three years. Right now, 88 percent of enterprises in a deficit are expected to make profits after three years. From this, it can be seen that under the current world economic environment in which enterprises with Japanese capital in Europe are not doing well, Japanese enterprises are withdrawing from the United States one after another; and less than half of enterprises in Southeast Asia are making profits, only China is still full of charm to foreign investors.

In spite of the fact that since the implementation of the financial readjustment and curtailment in the second half of 1993, views about China's economy being overheated and cautiousness in investing in China have prevailed in Japan's industrial circles, there are still more and more enterprises (particularly some medium-sized and small enterprises) which have shown great interest in investing in China. Various major economic

organizations and banks have organized all types of groups to come to China to study the investment climate so as to expand the realm and scale of Japanese investment.

2. More investment enterprises attach importance to China's domestic market.

With China's domestic market opening wider to the outside world, those Japanese enterprises which have mainly devoted in the processing industry will enter a new stage to pay more attention to China's domestic market. To turn China into a place for long-term investment, large-scale investment will be made in the development of high and new technologies (home appliances, telecommunication and electronics industries), industries for the manufacture of durable products (cars, automobile parts and durable electric appliances) and consumption-related enterprises (department stores, supermarkets, cosmetics and fast food stores). The huge market in China will attract more enterprises with Japanese capital. As far as Japanese enterprises are concerned, China has two large markets—the investment market and the consumer goods market. In various localities with the coastal areas as the center in China, the pace in turning them into a worldwide large production base area will be accelerated. For example, the area within a radius of 500 km with Shanghai as the center is equivalent to half of Japan's territory. There is a population of 130 million in that area, which is equivalent to the entire population of Japan. Moreover, Beijing, Tianjin and the coastal area in South China are also potential markets.

3. Investors who start off before others will attract even more investors.

With the increasing number of investment from large Japanese enterprises, medium-sized and small enterprises which provide the aforementioned large Japanese enterprises with parts and raw materials have followed suit in investing in China. For example, plants which manufacture zippers (YKK in Shanghai) and buttons, and mills which dye the garment linings also set up their factories in China. The development of the automobile industry has also attracted automobile parts factories to invest in China. From now on, there will be more Japanese factories in China to manufacture printing ink and small electric accessories such as switches and plugs. Due to the appreciation of the Japanese Yen and the economic depression in Japan, these small enterprises have begun to study the investment climate in China. Thus, the snowball is becoming larger and larger as investors currently in China will attract even larger investors to China. At that time, China will usher in a new situation of an all-out investment from foreign businessmen.

For the past 15 years since the implementation of the reform and opening-up program, Japan's investment to China still lags far behind as compared with other Japanese investment in Asia or other districts in terms of

scale or the total amount of investment. Japan has only made its first step forward in investing in China. China and Japan is separated by a strip of water. China and Japan are closely related both geographically and historically. China needs assistance from Japan in terms of capital, technology and managerial expertise. On the other hand, the consumer market in Japan has already been saturated. It values the huge market in China and seeks to find a way for its enterprises to survive and further develop themselves. As long as China persistently implements its policy of opening to the outside world, quickens its pace in perfecting its decrees, laws and regulations, and further improves its investment climate, it will definitely attract even more Japanese enterprises to invest in China. From now on, the trend of mutual benefit and reciprocity and of complementing each other and achieving common prosperity will prevail in the development of the world economy.

Footnotes:

- (1) Statistical figures up to the end of September 1993.
- (2) The Japan-China Institution for Promoting Investment was established in Tokyo on 29 March 1990 aimed at encouraging Japan's nongovernmental enterprises to invest in China and solving existing problems concerning investment between Japan and China. Right now, more than 200 Japanese enterprises are members of the institution.

Population

Women's Rights, Birth Control

94CE0765B Beijing RENKOU YANJIU
[POPULATION RESEARCH] in Chinese No 88,
29 Jul 94 pp 49-50

[Article by Sha Peining (3097 1014 1337), Philosophy Institute, Chinese Academy of Sciences: "Birth Control and Women's Rights"]

[FBIS Translated Excerpt] Historical movements in human society always strive to bring unity between society's underlying rules and society's goals. In China, effective social control of population is based on the main entity's (i.e., policy's) adherence to the truth of objective laws. Population control is also in keeping with the goals, ideals, and requirements of policy per se. Planned parenthood premised on society's underlying rules even solidifies value choices oriented toward the future that are part of people's built-in yardstick. These values are reasonable and "necessary." The problem lies in what form this universal reasonableness should be realized. It lies in how to put into effect the overall value goals of planned parenthood in the course of actual birth control work to achieve the maximum degree of unity between birth control and protection of women's rights. On this level, the first problem occurs in some people misunderstanding and their misuse of the fundamental goal of planned parenthood policy and the avenues,

methods, and techniques for achieving it. The second problem is the negative effects of some traditional moral standards, the social psychology, and the value orientation of the two sexes about matters such as contraception. Furthermore, it is women who suffer mainly from the negative consequences of the above two problems. We briefly discuss these two problems below.

1. In urban contraceptive work today, the first of the above two problems is manifested in the following ways: In some places, women have no way to choose a contraception method. In some places, the government sets "long-term effectiveness" as the goal in planned parenthood work. In order to "meet the goal," some women are forcibly "required" to use an interuterine birth control device [IUD]. Such a compulsory "ring insertion" may have the following harmful results at minimum: First, it harms some women's bodies. Granted that an IUD is economical, effective, and has no effect on childbearing once removed, it also has a real failure rate (such as falling out, pregnancy despite its use). It also has side effects (such as bleeding, backaches, and irregular menstruation). There is no complete unanimity of views as yet among doctors in China and abroad about heterotopic pregnancies and interuterine problems unrelated to IUDs. Which method of contraception is best remains a problem requiring further study. Under these circumstance, excessive, and even administrative command-style meddling in women's choice of contraception methods is also undesirable from a medical standpoint. Second, such interference leads to a loss of women's rights. Women should have the right, within the limits of the law, to make decisions about their own bodies. From the standpoint of safeguarding women's rights and interests, the negative significance of forcibly requiring women to use a certain contraception method is far greater than the harm done to the bodies of a small number of women. In this sense, whether the IUD is the best contraception method is a problem. Whether women should have the right to select a certain contraception method is a separate problem, the reason being that this is not just a medical issue. Here, our main concern is the more general, and more profound women's problem that lies hidden in the background. Third, some women have a reaction against their "duty," which impairs their understanding of planned parenthood policy. Rights and duties are two sides of the same coin. The loss of women's rights will directly affect their understanding of their "duties," and the degree of their willingness to perform their duties. Fourth is the psychology of defiance and bad feelings created. For example, IUDs are a pretty good method of contraception, but some of our mistaken methods of using them have caused some women (including many who have not had an IUD inserted) to misunderstand and reject this method. This article takes the position that population control, to bring it into line with the overall level of development of the national economy, is a concrete goal of planned parenthood. Moreover, birth control is only a means in the broader and deeper sense, and in terms of

the ultimate goal of planned parenthood. Higher quality survival and development is the basic goal we wish to attain. Birth control must express this fundamental value goal. It is on this level that we say that promoting women's health and development, and safeguarding women's fundamental rights and interest is one of the indispensable ingredients in deciding on the reasonableness of planned parenthood. However, neglecting or departing from these ingredients in actual work is the source of the problems noted above. Seeking only after formalistic "meeting the goal," or even sacrificing the health and rights of women for private benefit, and looking at planned parenthood in utilitarian terms make the reasonableness of planned parenthood difficult to realize. The writer feels personally that it is on this point of the free selection of contraception method that the unity of rights and duties are concretely and antagonistically expressed: So long as they perform to the full their legal duties, women should have complete freedom of choice. A woman is both restricted and free at the same time. Restraint includes restraints on freedom, and freedom includes having limited freedom.

2. The traditional moral views of the two sexes are relatively independent and static. They have an effect on solution to the contraception problem. In addition, the special always contains something of the ordinary. Women's disadvantageous position on the contraception issue, and their accustomed role in society and the family, as well as people's mistaken ideas about women's sexual rights are closely related. The problem is expressed as follows: First, the traditional view is that a woman's bounden duty to have children equals a bounden duty to take care of contraception. This is expressed in the different responsibility for contraception of males and females (on the male or female sterilization issue, for example). Second, influenced by traditional ideas, some women develop a dependent self-esteem sense. Some are willing to sacrifice themselves to "protect" feeling between husband and wife and to harmonize conflicts. Actually, some of the problems that arise in contraception stem from women's own weakness. Basically speaking, the elevation of women's position is a process in which women become fully aware. The awakening of women's subjective awareness, and the efforts they make to establish women's subjective values are necessary in order for them to change their own disadvantageous position (naturally, with regard to contraception as well). Third, problems with contraception are also related to a weak sense of sexual morality within marriage, and a poor quality marriage. In some families, the husband regards his wife only as an outlet for his sexual desire. He views responsibility toward his wife with disdain, contraception either being disregarded or becoming solely the woman's responsibility. Of course, it is the female who has to bear the unpleasant result. This result may be either physical or mental. [passage omitted]

Agriculture

Major Irrigation Project in Gansu Profiled

OW0710044694 Beijing XINHUA in English
0352 GMT 7 Oct 94

["Backgrounder: Giant Diversion Works Ready To Operate"]

[FBIS Transcribed Text] Lanzhou, October 7 (XINHUA)—A giant irrigation project will soon begin to channel water through steep mountains to an arid basin in Gansu Province on northwest China's loess plateau.

Diversion was successfully tried on September 26. The project will be operational later this month.

Chinese and foreign experts have described the huge project as a miracle.

Involving a total investment of 1.57 billion yuan (185 million U.S. dollars), including a loan of 123 million U.S. dollars from the World Bank, the project is the most costly of its kind in China. In fact it is a project completed by the joint efforts of China, Japan, Italy, the United States and Australia.

The diversion works is highlighted by the following figures:

- Its trunk canal and branch canals total 868.17 km in length.
- Tunnels total 110 km in length.
- Its longest tunnel is 15.73 km in length, the longest among all water-diverting tunnels in the world.
- One of the siphon projects has a drop of 107 meters, among the largest in Asia.
- One of the aqueducts is 2,198.35 meters in length, China's longest.

The project diverts 443 million cubic meters of water a year to the basin with 67,000 ha of fertile soil but scarce rainfall, from Datong River, 100 km away.

Many people dreamed of the project as early as in the Qing dynasty. Survey was started in 1956 but the plan was shelved for decades due to the lack of funds, advanced equipment and techniques. In 1985 a bidding for the project was announced, which lured 30 building groups from both at home and overseas. Japan's Kumagai Gumi Co. and the Italian CMC undertook two longest tunnels.

The completion of the huge project will turn the once barren land into an oasis, with an expected annual grain output up to 144 million kg. A total of 283,000 local peasants will bid farewell to poverty, and another 80,000 people will move in from poorer areas.

Besides, afforestation in the basin, as a green belt built on the north of Lanzhou, capital city of Gansu Province, will greatly improve the city's ecological environment.

Main Problems in Rural Economy Viewed

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[ECONOMIC DYNAMICS] in Chinese No 7, Jul 94
pp 13-16

[Article by Yuan Yongkang (5913 3057 1660) and Wu Shangmin (0702 1424 3046), both of the General Office, Chinese Academy of Social Sciences: "Main Problems Hindering Further Reform and Development of the Rural Economy and Countermeasures"]

[Text] I. Two Different Assessments of the Current Situation in the Rural Economy

First viewpoint: The growth of agriculture, especially the crop sector, has encountered difficulties, and it is very possible that a new round of fluctuations will occur, so the sustained, stable development of the national economy faces a serious threat. The reasons for this are:

First, the situation in the production of grain, cotton, and other staple agricultural products is grim, and the peasants' enthusiasm for planting grain and cotton has abated. One expert has pointed out: This year the area of summer grain (winter wheat) has been reduced by 9 million mu. The disasters caused by waterlogging in the south and drought in the north are fairly serious, and the condition of the seedlings is not good. In all of China the area of weak seedlings is a little under 150 million mu, or 40 percent of the area planted to wheat. According to the Ministry of Agriculture, the area planted to grain this year is only 1.63 billion mu, already below the 1.65 billion mu warning line. If the per unit area level is not raised by a great amount, the total output of grain will most likely be lower than that of last year. Because prices are inappropriate, for two years cotton has been on a downslide, and the gap between its supply and demand has widened. In 1993, the area sown to cotton was reduced by 27 million mu, and the reduction in output was quite large; in 1994 the area sown to cotton was only 81 million mu, not reaching the planned 90 million mu. Cotton's market price is now 15,000-17,000 yuan/ton, which amounts to 700-800 yuan/dan, and the state's purchasing price is only 419 yuan/dan, lower than the market price by almost half, thereby seriously adversely affecting the peasants' enthusiasm for sowing cotton.

Second, agriculture's relative profitability is too low, and the peasants' income is growing extremely slowly. First, in all of China there are now about 50 million members of the rural labor force who work outside their native localities. The monthly income of each member of the labor force who went outside to work is about 400 yuan, and his annual income can reach about 3,000 yuan (in general, he will work outside seven months). This income level cannot be reached by again raising the price of crop sector products. Second, the gap between the

purchase price index for agricultural products and the price increase index for agricultural means of production has been too wide for five years in succession, the momentum of the increase of the latter being extremely powerful. The 1993 price of Nei Mongol's and Heilongjiang's diammonium phosphate was 1,400 yuan/ton and in 1994, the price reached 2,380 yuan/ton. Guizhou's urea price rose 45 percent, and diammonium phosphate's price was 2,200-2,300 yuan/ton. This situation strongly promotes rigidity in the cost of agricultural products, thereby causing lower returns. According to calculations made by the Ministry of Agriculture for 1992, because of the increase in the cost of the means of production, the peasants paid out more than 30 billion yuan.

Third, the state's input in agriculture is no cause for optimism. In 1993 the state invested 10.5 billion yuan in agricultural capital construction, and after deducting the price increase index this became a negative increase. The proportion of total investment in China's farmland capital construction was 2.8 percent in 1992 and it fell to 2 percent in 1993.

Fourth, the input used in production operations by peasant households is in a state of stagnation. According to a survey, in 1993 on average 367 yuan of the income of a member of a peasant household was used for production operations inputs, and, after deducting the price rise index, this was only a 1.1 percent increase over that of the previous year, and the actual rate of increase fell back by a great amount.

Fifth, the tax burden on township and town enterprises is growing, and their losses are increasing. After reform of the tax system, the tax burden on township and town enterprises increased by 45 billion yuan. According to data from Zhejiang, in January and February of this year, 56,000 township and town enterprises in Zhejiang Province made a profit of 208 million yuan, 63.98 percent less than in the same period of last year, and the amount of taxes turned over to the state increased by 40 percent compared to the amount in the same period of last year. Therefore, there were 9,464 loss-making enterprises, and the extent of their losses was 16.5 percent; their situation is fairly serious.

The second viewpoint is that the assessment of the situation in agriculture and the rural economy is not necessarily cause for pessimism, and that, speaking of the supply of agricultural products, there do not exist long-term fundamental restricting factors. The reasons for this are:

At the end of 1993 and the beginning of 1994, there were large price rises in agricultural products, and this was a very great stimulus to the production of agricultural products. The relevant departments have doubts about the forecasted and estimated figures for the sown area. In the future there is only a very small possibility that agriculture will enter a period of fluctuation.

Second, the main reasons for the fluctuation in agriculture, especially the fluctuation in grain production in the years 1985-1988 were that, after the output-related contract system was put in place, farmland capital construction could not keep up. If good work is done in this respect, there will not be fundamental restricting factors in the supply of agricultural products.

Third, at present agricultural development is restricted by demand, and, under conditions of imperfect objective regulation and control measures, a big fluctuation in agricultural production is unavoidable. Because the supply and demand of agricultural products are basically regulated by the market, with the formation of a situation in which market regulation is primary, production fluctuation has become a normal phenomenon. Therefore, the estimate for the agricultural production situation should not be too pessimistic. It is not necessary to unduly proceed from the situation before one's eyes and take a lot of emergency measures, which run counter to the direction of long-term reform.

Fourth, the household contract system for land ensures the basic supply of agricultural products under the system. The food problem for the peasants, who make up 90 percent of China's population, has been basically solved, a major problem in the basic supply of agricultural products has not occurred, and the country's overall situation is stable.

II. Existing Problems in Reform and Development of Current Rural Economy

A. Agriculture, especially the crop sector, faces the difficulty of insufficient motivation for development, and its core problem is that it is difficult to solve the problem of the slow growth of the peasants' income. On a deeper level, the cause lies in the fact that agriculture's relative profitability is insufficient and that the capability of nonagriculture industry to absorb the agricultural labor force is weak.

Manifestations of this aspect are: First, in 1992 the ratio of the average income of the agricultural worker to the average income of the worker in nonagriculture industry was 1:2.2, and the ratio of the average income of the worker in the crop sector to the average income of the worker in nonagriculture industry was above 1:3. The cause of this situation is that the peasants' demand-income elasticity is excessively low as well as the fact that the increase in agriculture's production rate and increase rate is slow. In the years 1971-1980, in 11 kinds of goods closely related to agriculture, e.g., grain, edible oil, pork, and poultry, in seven of them the goods' demand-income elasticity was greater than one. This shows that after 1984, China's agricultural development faced demand restrictions, which were a restraint on demand under the conditions in which in the whole country about 80 percent of the population was in the rural areas. Second, from a look at the growth of the crops sector, animal husbandry, forestry, fishery, and sidelines, with the exception of the large rise in the annual average growth

rate of fishery (in 1979-1984 it was 7.7 percent, and in 1985-1992 it was 13.5 percent), the growth rate of the others declined by a large amount, and the annual average growth rate of the crops sector in the latter period was only a third of that of the former period. Third, from a look at the output of the main agricultural products, we see that the grain output in the former six years (1979-1984) grew by more than 80 billion jin, and the annual average growth rate was 12 billion jin, only equal to a third of the amount of growth in the former period. Cotton output in the former six years grew somewhat over 80 million dan, somewhat over 40 million dan less than in the latter eight years. In the latter eight years, only tobacco, fruit, and aquatic products increased in their annual average growth rate. The development of some other main products—e.g., oil-bearing crops, sesame, sugarcane, beets, pork, beef, and lamb—for the most part showed a decrease in their annual average growth rates, and some even showed negative growth. This shows that after 1984 there was a distinct drop in the production rate and increase rate of China's agriculture.

The weakness of the capability of nonagriculture industry to absorb the agricultural labor force was mainly manifested in: Compared to the years 1979-1984, in the years 1985-1992, the employment elasticity of rural nonagriculture industry and rural industry took a large drop. In the years 1979-1984, the rural industry's output value increased 1 percent and employment increased 0.24 percent; in 1993 for every 1 percent increase in output value, employment only increased 0.12 percent, and, compared with that in the previous six years, this was only equal to a fifth of the level then. Only in the output value-employment elasticity of the rural area's construction industry, transportation industry, and three parts of commerce was there a fairly big increase, but the proportion of people working in them in all the nonagriculture employed people in the rural areas was low. If in the years 1988 to 1992, the output value-employment elasticity of the nonagriculture industries in the rural areas had been identical to that of the previous six years, then in the latter eight years, more than 50 million members of the labor force could have been absorbed, i.e., in 1992 the employed people in the nonagriculture industries in the rural areas should have been increased by more than 50 million, reaching a total of 160 million.

The causes of the weakness of the capability of the nonagriculture industries to absorb the agricultural labor force are: First, the output value-employment elasticity of industries in the rural areas has fallen off. This is closely related to the fact that investment is excessively tilted toward rural industries and that the proportion of per capital fixed assets in rural industries is rising. Second, the development in rural areas of the construction industry, transportation industry, and commerce, which have a relatively strong capability for absorbing employment, is slow. In the years 1985-1992 the average annual growth rate of the output value in these three

sectors dropped 4.4 percent compared with that in the years 1979-1984. In the output value-employment elasticity of the three sectors in the years 1979-1984, for every 1 percent increase in output value, employment increased 0.9 percent, but in the years 1985-1992 for every 1 percent increase in output value, employment increased 1.2 percent, and obviously the employment elasticity was rising. This shows that the great weakness in the relative capability of nonagriculture industry in the rural areas to absorb employment is closely related to the delay in the urbanization process in the rural areas and to the inadequate development of the tertiary industry there.

B. The excessively large difference between regions and the excessively low income of peasants in undeveloped regions are important factors restricting the rapid development of the country's economy.

The main manifestations of this are: First, in 1993 the average per capita net income of peasants in 19 provinces (autonomous regions) in China was below the national average level (921 yuan). The increase in the average per capita income of peasants in Guangdong, Guangxi, Fujian, Zhejiang, and the three municipalities directly under the central government is as high as more than 20 percent; but the rate of increase in the income of the peasants in the greater part of the regions in China is under 15 percent, while the average level in China is 11-12 percent, and after deducting the price factor, there is almost no increase. Second, in the southeastern coastal region, where the rate of income increase is fastest, agriculture is weakening and even deteriorating. The increase in peasant income does not depend on the primary industry but rather on the secondary and tertiary industries; what it depends on is the adjustment of the structures of the sectors in the rural economy. The fundamental reason for the bumper harvest and grain price rise last year was that grain output, agricultural development, and variety mix were unbalanced.

III. Suggestions for Countermeasures

A. We should change from a pattern of a large increase in basic agricultural products to a pattern of linking a balanced increase in agricultural products to a sustained reduction in the number of peasants. Some scholars think that the present stage in China's agriculture is one in which there has been a transition from a stage in which supply constraints were primary to a stage in which demand constraints are primary. The pace of urbanization must be accelerated before the tendency for rural industry to increase excessively can be rectified, the development of rural tertiary industry can be promoted, and the capability of the nonagriculture industry in China's rural areas to absorb employment can be restored. However, from the long-term point of view (10 years in the future), it will not be easy to make the following changes: First, agriculture's relative profitability is inadequate, and the desire to solve this problem by increasing the per-capital cultivated land for members

of the agricultural labor force cannot be basically achieved in the next 10 years. Second, it is also difficult to solve this problem by raising the average net income per mu of cultivated land. This is because a fairly big increase in the average per-mu output will be restricted by demand, and the achievement of this increase will encounter market difficulties; the momentum of a sharp increase in the costs of the means of production cannot lower by a large amount the per-mu cost; nobody can bear the enormous cost of a large increase in the prices of the main agricultural and sideline products; and the development of high-quality, high-efficiency agriculture requires a major suitable change at the demand structure level, otherwise it will still face the restraints of demand. Therefore, agriculture, especially the crop sector, faces the difficulty that the dynamic for development is inadequate, a situation that is not temporary, and it is impossible to resolve this difficulty by solely relying on a loosening up of the market. The countermeasure for this is, in 10-20 years in the future, to integrate and carry out work in four aspects: first, develop high-quality, high-efficiency agriculture; second, accelerate the pace of urbanization in the rural areas; third, promote the development of the tertiary industry in the rural areas; and fourth, form regional complexes for producing, processing, and circulating high-quality agricultural products, so that more peasants enjoy a hundred percent of the benefits of high add-on value.

B. We must, for a long period of time, uphold the principle of making welfare primary, and bring about a situation in which everyone has land. Some scholars propose that the movement of the agricultural population into industries and cities be highly restrained, and that for quite a long time a large number of agricultural workers be kept in the agricultural production realm. If in the undeveloped regions we cannot bring about a situation in which everyone has his own field, this will lead to many social problems.

C. In the central-western region, we must develop some medium-sized cities, each with a population of 200,000-500,000. This will be of great benefit to the absorption of the central-western region's labor force and to the reduction of the trans-region circulation of regional labor.

D. It is inadvisable that the increases in the current prices for grain and cotton be excessively large. Although the price increases in the means of production are very great, if the price increases of agricultural products, especially grain and cotton, is excessively large, it is very possible that this will be disadvantageous to the next production cycle, and the resultant fluctuation will be even larger. Especially after an artificial price increase in the next cycle, there could appear the more serious phenomenon of difficulty in finding a market.

E. The way to solve the problem of excessively low peasant income in economically undeveloped regions should be, with agriculture made primary, to develop, after accumulating forces, the secondary and tertiary

industries. Currently the key is to solve the problem of the primary industry in economically undeveloped regions. The state must support the primary industry in these regions and make every effort to solve the problem of the returns in the crop sector being low. This government support must not only take the form of regulating and protecting prices, but also must take the form of directly giving the peasants the advantage of price regulation and prevent this advantage from being seized by intermediate links. Data from the State Statistical Bureau shows that in the first quarter, 70,000 peasant households sold three grains (wheat, corn, and paddy) at an average price of 0.81 yuan/kg, not yet reaching the 1.00 yuan/kg price that the state had decided to adjust it to (in 1993 the central authorities decided to adjust the average price of four grains to 1.00 yuan/kg, and with the addition of the extra-value add-on value, the price could reach 1.08 yuan/kg). The advantage of price regulation cannot flow to intermediate circulation links and play the role of a higher price regulator.

(editor: Zhan Xiaohong [6124 1420 3163])

Footnotes

1. The General Office of the Chinese Academy of Social Sciences, the Rural Development Institute of the Chinese Academy of Social Sciences, and the Rural Department of the State Statistical Bureau on 23 April held a discussion meeting on problems in the current rural economic situation. A little over 30 experts and scholars from the Policy Research Center of the State Council, the State Restructuring of the Economic System Commission, the State Statistical Bureau, the Ministry of Agriculture, and the Chinese Academy of Social Sciences discussed the prominent problems and their deep-level causes facing the current rural economic reform and development, and put forward opinions for countermeasures. The article published here presents the main viewpoints of those attending the meeting as edited by the writers of the article.

New Strategy Proposed for Guangdong Agriculture
94CE0681A Beijing ZHONGGUO NONGCUN JINGJI
[CHINA'S RURAL ECONOMY] in Chinese No 7,
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[Article by Zheng Hongxuan (6774 1347 1357), Rural Development Research Center, Guangdong Province: "On a New Plan for Developing Guangdong's Agriculture"]

[FBIS Translated Text] Guangdong's agriculture is facing an unavoidable crisis today: First, the amount of cultivated land has declined sharply, population has increased, and population pressure on cultivated land is becoming greater and greater. Actual cultivated land area fell from 2,778,810 hectares at the end of 1978 to 2,433,690 hectares at the end of 1992, a net decline of 345,120 hectares in 14 years. This is 14.18 percent of the 1992 actual cultivated land area, and it is an annual net

decrease of 24,650 hectares. At the same time, the province's population increased from 50,641,500 in 1978 to 64,631,700 in 1992, a net increase of 13,990,200 in 14 years. This is equal to 21.65 percent of the total 1992 population, and a net increase of 999,300 per year. This increase in population and decrease in cultivated land area means the amount of cultivated land per capita in the province has greatly declined. In 1992, each hectare of cultivated land supported 27 persons. Second, the grain growing area decreased greatly, total output falling for a widening of the grain gap. The province's grain growing area decreased from 50,689,800 hectares in 1978 to 35,358,900 hectares in 1992 for a net 15,330,900 hectare, or 30.24 percent decrease. During the past three years in particular, the decrease has been great. A 1,187,600 hectare decrease occurred between 1990 and 1991; a 2,267,200 hectare decrease occurred between 1991 and 1992; and a 2 million hectare decrease is forecast for 1993. The province's grain growing area had been set at 3,666,800 hectares, but now it looks at though even 3,333,3000 hectares cannot be assured. As a result of frequent calamitous weather since 1991, the province's total grain output has fallen three years in a row. In 1992, Guangdong produced only 280.11 kilograms of grain per capita, 18 kilograms less than in 1978, widening of the grain gap further exerting heavy pressure. Third, investment in agriculture as a percentage of GNP and fiscal expenditures has fallen. Water conservancy facilities for many fields are old, and agricultural production conditions have deteriorated. Fourth is too high a rise in prices of agricultural means of production. This has increased the peasants' burdens, impeded agricultural production, and further dampened the interest in growing grain of the broad masses of peasants. In some places, even in a small number of economically undeveloped areas, cultivated land lies idle and abandoned.

An even greater crisis exists due to a drop in the level of agricultural science and technology. The agricultural science and technology corps is extremely weak; the number of agricultural science and technology personnel is dwindling; and the wherewithal for the development of agriculture is far from meeting agricultural modernization needs. Pertinent data show only four agricultural science personnel per 10,000 members of the agricultural population in Guangdong, and half the administrative villages in the province have no peasant technicians. Only 1.6 percent of the agricultural science personnel in township and town primary level farm machinery stations, veterinary medicine stations and administration and management stations have a college education or more, and 65 percent of them have a junior middle school education or less. Because of the lack of operating expenses, the pay and benefits of agricultural science personnel are poor, and their social status is low, making the development of agricultural science and technology markets difficult. Social benefits from agricultural research achievements are good, but economic returns are poor. The hard work of agricultural science personnel

does not receive commensurate economic compensation. This seriously damages the enthusiasm of agricultural science personnel, so the number of agricultural science personnel leaving this work is an extremely serious problem. In addition, large numbers of young, educated, able-bodied workers find employment in secondary and tertiary industries while the caliber of manpower engaged in agriculture generally declines. Estimates based on random sampling show that 67.4 percent of the province's agricultural work force in 1992 had a primarily school education or less, and 17.1 percent of them were either illiterate or semi-illiterate. Only 7.4 percent had a senior middle school education. Moreover, only 5.1 percent had any kind of vocational training; 94.9 percent had no vocational training at all. In many places, particularly in rural villages in fairly economically developed areas, a situation has come about in which "three kinds of no-goods" (namely, old no-goods, young no-goods, and lazy no-goods) do the farming.

What is really worrisome is that in the great market economy surge, party and government leaders in many places consider agriculture a 'loser'; hence, to one degree or another, they have slackened agricultural leadership and inputs. This has jolted the basic position of agriculture. Bolstering agriculture goes no farther than documents and reports. Strong actions are lacking, and so is real concern and attention.

All the subjective reasons aside, the main reasons Guangdong's agriculture is facing a crisis are as follows: First is low quality agriculture characterized largely by the pursuit of quantity from which comparative economic returns are very low, and agricultural producers' operating profits are very slight. In low quality grain farming, in particular, operating profits are even lower or even negative. Grain farming has become an uneconomic choice. This makes it very difficult to attract peasant interest in grain production. Second is small-scale agriculture on scattered bits of land from which returns are marginal and the agricultural labor productivity rate very low. In developed areas, because of the rise of secondary and tertiary industries, agricultural income—particularly income from growing grain—accounts for a very small portion of peasant families' total income. It is a symbolic income. Therefore, in these areas, agriculture is regarded as a supplementary industry. Thus, non-intensive farming has become the most natural choice of peasants. In backward areas, this form of low quality, small scale, poor returns agriculture obviously cannot satisfy the needs and hopes of the broad masses of peasants for becoming well-to-do.

In short, a low quality, low returns, agricultural development course in which quantity is paramount will become increasingly narrow in the great market economy surge.

(2)

While agriculture in Guangdong is facing a crisis, we must also realize that Guangdong's agricultural economy

entered a new historical stage during the 1990's. It is facing a new historical macro-environment.

First is the large macroeconomic environment of building market economy institutions. Comrade Deng Xiaoping's remarks during his travels in Guangdong during the spring of 1992 and at the 14th Party Congress marked the entry of China's economic reforms into a new historical state of total building of socialist market economy institutions and substantial modernization. From this turning point, a new pattern of reform and opening to the outside world is taking shape. Unified, openly competitive, and orderly national markets will gradually be built.

In Guangdong Province, which is on the leading edge of reform and opening to the outside world in the country as a whole, and out in front in reform and opening to the outside world, agriculture and the rural economy—like the entire national economy—are at a new historical starting point. They are entering a new historical stage of full establishment of market economy institutions and being substantially modernized in 20 years. If one says that during the 1980's, reform and development of Guangdong's agriculture and rural economy took a leading position through "contracting, relaxation of controls, and readjustments," to become known for excellence throughout the country, then during the 1990's, with major readjustments nationwide in the pattern of reform and opening to the outside world, and the gradual building of uniformly openly competitive and orderly large markets, Guangdong's agriculture will pervade the whole country, entering the national market system. It will also forge links with international market, pushing its way more directly into the international marketplace. This will create more new advantages for Guangdong's agriculture.

Second is a great trend toward rapid advances in the industrialization and urbanization of rural villages. Since the beginning of reform and opening to the outside world, Guangdong's rural villages have rapidly urbanized. The number of cities in the province has increased from 13 in 1982 to the present 43, two of them prefecture level cities and 22 of them county level cities. Organized towns have increased from 112 in 1982 to 1,180, and 332 market towns have come into being. On the Zhu Jiang Delta, where Guangzhou and Foshan are the main cities, groups of newly industrializing cities have sprung up rapidly. In the southeast coast urban belt with ties to the Shenzhen, Zhuhai, and Shantou special economic zones, cities such as Zhanjiang, Maoming, Yangjiang, Chaozhou, Jieyang, and Huizhou, and the new cities of Danshui, Dayawan, Puning, Chaozhou, and Nanao have sprung up suddenly. It is estimated that by 2000, a number of medium and small size cities, and coastal port cities will rise in Guangdong. The small cities and towns that will dot the entire province like stars in the sky will form an urban network. At that time, the level of urbanization of the province's population will rise from the present 36 percent to 52 percent. This means that

more than half the population will live in cities and towns. Rapid urbanization of Guangdong will create an enormous, steadily growing, premium quality agricultural products markets suited to the medium and high quality consumption needs of the city and town population. No longer will Guangdong's agriculture be the former "subsistence agriculture" and "obligation agriculture" solely for the purpose of providing food and clothing, and providing government procurement grain. Instead, it will satisfy the increasing demand for premium agricultural products. In addition, it will provide the agricultural ecology areas (or belts) necessary for urbanization.

Third, after Hong Kong's and Macao's retrocession, to a very large extent the agricultural products required for the Hong Kong-Macao territory will come from Guangdong's agriculture. They will also directly enter international markets through Hong Kong and Macao to a greater degree as well. Because of the direct economic links between both sides of the Taiwan Strait, Guangdong's agriculture will enter into more direct intense competition with Taiwan province for the Hong Kong and Macao agricultural products markets.

Therefore, with the entry into a new historical stage, Guangdong's agriculture will inevitably become transformed into a multi-component market agriculture, suburban agriculture, foreign exchange-earning agriculture, ecological agriculture, and tourism agriculture. This is a qualitative change that marks a change in the goals of agriculture from the former big quantity agriculture to good quality, high returns agriculture heading toward modern agriculture.

(3)

A gist of the above two sections yields a strong perception, namely that during the important historical period between now and the end of the present century, a new plan must be adopted and new development avenues found to eradicate the crisis and build an entirely new agricultural development system.

In overall conceptual terms, we must proceed from Guangdong's objective realities, the key lying in "three major breakthroughs" and "three major establishments" in the guiding thought.

First is breaking through the limitations of "cultivated land agriculture" to establish a new concept of "land agriculture." For a long time, our mental concept has been consciously or unconsciously limited by cultivated land agriculture conventions. Consequently, whenever agriculture is discussed, it is as though only small scale agriculture employing cultivated land resources is meant. Resources available for agriculture equate to cultivated land resources. But, Guangdong has limited cultivated land resources, and they are decreasing year by year as the use of land for non-agricultural purposes increases. However, Guangdong has very abundant land resources. It has more than 6.67 million hectares of

mountain land, a 3,368 kilometer long coastline having 759 large and small islands and islets. An ocean area of nearly 400,000 square kilometers belongs to Guangdong. This is more than double its land area. It has 150,000 hectares of river and ocean flats, and 600,000 hectares of shallow ocean that can support the breeding of aquatic products. Only one-tenth of this area has been initially developed for use. Guangdong is tropical and subtropical, so it has outstanding climate resources. If a production concept can be established of using all land resources for the development of agriculture, Guangdong's room for agriculture will be very broad. Much can be done with it.

Second is breaking through the limitations of "grain agriculture" to establish the concept of "food agriculture." Because of the limitations of cultivated land agriculture, a mode of thinking has come about in which "agriculture means cultivated land agriculture, which means grain agriculture." Thus, people have correspondingly formed a just a grain concept as their consumption concept. Actually, the development of modern society enables people to gradually change their former concept of grain alone to a broader modern food concept, namely that they not only should eat grain, but meat, eggs, melons, fruits, vegetables, and aquatic products as well. Thus, the content and categories of agriculture would become richer and more varied than in traditional agriculture. Guangdong is a maritime province having plentiful marine and marine biological resources. It has outstanding natural conditions for development of "blue agriculture." By moving into marine agriculture, Guangdong's agriculture would ignite a new revolution in production. Another revolutionary kind of agriculture is the development of "biological agriculture." Guangdong is the leading province in the country in reform and opening to the outside world. It possesses advantages in openness. It has the conditions for developing biological projects. By taking the first step in developing biological agriculture, Guangdong can set up biological factories to produce food by forging links internally and obtaining technology and capital abroad. Ten factories taking up little land to produce 100,000 tons of single cell protein annually could produce the equivalent of the total annual grain output of all the cultivated land in Guangdong.

3. Third is breaking through the limitations of "Guangdong agriculture" to establish a concept of "greater Guangdong agriculture." For a long time, people has fashioned the following mode of thinking: Discussion of Guangdong agriculture must be limited to agriculture within the administrative area of Guangdong Province. The term "Guangdong agriculture" could not be applied outside the confines of Guangdong Province. Actually, the development of a modern market economy long ago demolished administrative region limits. A country's or a territories industry may extend to any place in the world as the economy extends. This is also true of agriculture. With the steady development of a national unified market, and the gradual establishment of an

international regional economic system, "Guangdong agriculture" is bound to extend from Guangdong to the whole country and internationally. One-third of Guangdong's GNP already comes from abroad. Sticking to the "Guangdong agriculture" set pattern makes solution to Guangdong's agricultural problems difficult—its grain problem, in particular. Therefore, Guangdong's agricultural problems must be placed in a countrywide and Asia-Pacific economic system setting, and be judged in those terms. A "greater Guangdong agriculture" concept must be established.

The essence of the "three breakthroughs" and the "three establishments" is widening of the connotations and categories of agriculture. It means breaking free from the conventional fetters of agriculture in the narrow sense to fashion "agriculture in the broadest sense."

Establishment of the above guiding thought permits the strategic transformation of Guangdong's agriculture for the formation of a new development strategy. We have applied the foregoing analysis to propose the following basic strategic conception for the development of Guangdong's agriculture in the new historical stage: In terms of guiding principle, Guangdong's agriculture must be placed in the macroeconomic setting of the south China economic sphere, a unified national market, and even the Asia-Pacific region economic cooperation system, taking full account of the macroeconomic operating environment and basic trend of development of Guangdong's agriculture in the new historical stage.

In terms of development orientation, Guangdong's agriculture must orient toward modern food production, processing, circulation, and trade in an integrated operating process. The goal of its development strategy is establishment of an entirely new, century-spanning Guangdong agricultural system. In terms of development growth, steady development of conventional agriculture in which cultivated land agriculture is paramount must be used as a basis for vigorous development of "blue agriculture," meaning marine agriculture, active development of "white agriculture," meaning biological agriculture, and conventional "green agriculture," the three constituting Guangdong's "tricolor agricultural system." At the same time, Guangdong's agriculture must be extended beyond the territory of Guangdong through various cooperative means including the forging of internal links and the introduction of capital and technology from abroad to build a "greater Guangdong agriculture" system.

Realization of the above strategic conception must proceed in tandem with reform and opening to the outside world and the establishment of a socialist market system, particularly nationally uniform openly competitive orderly markets. Bringing this strategy to fruition will take roughly between 20 and 25 years divided into three development stages as follows: The first stage is 4 or 5 years between now and 1997 during which a basic pattern is formed for changing the strategy. The second

stage is 10 years beginning from the end of the 1990's, during which the strategic concept will be gradually completely implemented to fashion the basic embryonic form of strategic development. The third stage will take another 10 years of consolidation and improvement for full realization of strategic goals. The historical stage from now until the end of the present century is a key period for laying the foundation to change Guangdong's agricultural development strategy.

Water Problems Intensify

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[Article by Zhang Qishun (1728 0796 5293) of the Hydroelectric Science Research Institute and Zhang Xiao (1728 0879) of the Chinese Academy of Sciences Scientific and Technical Policy and Management Institute: "China's Water Problems"]

[FBIS Translated Text] I. China's Water Problems

1. A shortage of water. At present, the water supply capacity of China's existing irrigation works is about 500 billion cubic meters, but for agriculture this is an annual shortfall of 30 billion cubic meters, with 20 to 30 million mu that annually suffer a drought; 300 of 517 cities are short of water, with a water shortfall of as much as 6 billion cubic meters. There are four types of water shortages: shortage of resources, shortage of works, severe pollution, and shortage of facilities. The water shortage has threatened a wide area of North China. For example, there are 21 million mu of cultivated land in North China, while the annual water supply capacity is only 42 billion cubic meters. At present, there is an annual average shortfall of 8 billion cubic meters of water, and this grows to 12 billion cubic meters in low water years, resulting in a reduction of 30 to 40 billion yuan in agricultural and industrial production output value. The nationwide water shortage in agriculture has caused an average annual reduction in grain production of more than 2.5 billion kilograms, affecting 70 billion yuan in urban industrial production output value. There are 50 cities seriously short of water, and this has affected over 5 million people's regular water use and caused a 30 billion yuan decline in production output value.

2. Flooding and waterlogging disasters. Every year, China suffers 30 billion yuan in economic losses that are the direct result of flooding and waterlogging disasters. This figure exceeded 60 billion yuan in 1991. Flood disasters in big rivers are still China's serious hidden danger. China has 50 million people and 400 of 517 cities which are unprotected, so the topics of flooding and waterlogging should attract a great deal of attention. The flooding and waterlogging disasters around the Changjiang River and the Huaihe River areas in 1991 happened in conditions where dikes had not broken, while the losses from floods and waterlogging disasters in Shenzhen in 1993

and the many floods and waterlogging disasters which happened in medium and small rivers warn us again that we must pay attention to city flooding and waterlogging problems during urban construction.

3. Water pollution and the water environment grow increasingly worse. Over 80 percent of this country's population lives around the seven big rivers and five big lakes. This area produces 85 percent of the nation's gross industrial and agricultural production output value. Every year, as much as 36.5 billion cubic meters of untreated polluted water is drained away from our cities, which has seriously polluted 20 to 30 percent of the water in the seven big rivers and five big lakes, and the resultant deterioration in water quality has caused as much as 30 billion yuan in economic losses. Take the Yellow River as an example: the gross water resource capacity of the Yellow River is 50 billion cubic meters, but because it flows through the driest area of the Northwest and the water-short North China plain, it still cannot satisfy the needs of its river valley development although the current exploring and using rate has reached over 50 percent. At present, there are a series of water environmental problems with the river valley, the amount of polluted water drainage is up to 3 billion cubic meters, and the fourth level polluted part constitutes more than 60 percent of the 12,000 km main river and its branches. Because human activities are accelerating water and soil loss in the moist and semi-moist hilly northern part of East China, it has brought deposits to the rivers and lakes of China's Hunan, Jiangxi and Fujian provinces.

4. Excessive extraction of groundwater. China has a total of 870 billion cubic meters in groundwater resources, with an extractable amount of 290 billion cubic meters, 88 billion cubic meters have already been mined; one-fourth of our farmland irrigation depend on groundwater, and two-thirds of our urban water resources come from groundwater. Because there has been a lack of planning and management in groundwater extraction, it has been severely extracted, and the water level has fallen continuously. For example, in North China 70 percent of the extractable amount has been extracted, while some areas have been seriously over-extracted. The groundwater level in the Changzhou area of Hebei has dropped over 70 meters in ten years, the funnel area continuously expanding. Statistics indicate that the accumulated over-extracted amount of ground water in North China has reached over 30 billion cubic meters, including the Beijing area, which has reached 3 billion cubic meters. Due to over-extraction, earth subsidence has occurred, making it difficult to release water after it rains, which worsens flooding and waterlogging disasters. For instance, the problem is very severe in the cities of Tianjin and Shanghai: earth subsidence is 1.5 meters in Shanghai, and in some places it has been up to 2.5 meters, while in Tianjin's Tanggu district, the earth's surface has been below the horizon, entirely dependant on sea dikes for protection. The uneven earth subsidence caused by over-extraction produces cracks in the earth's

surface, endangers housing safety. Nine crossing city cracks have appeared in Xian, endangering over 2,600 buildings; in addition, over-extraction can also cause sea water soaking in the coastal areas. Shandong's Laizhou Bay has a 400 square kilometer area which has been soaked by sea water, and it creeps toward the interior at 400 meters a year. The results of this are extremely serious because over-extraction is leading to the desertification of the interior.

5. A very low management level. While China is short on water resources, its efficiency of water use is also very low. At the beginning of the eighties, the annual gross water extraction in China was generally the same as the United States', however, China's GDP output value was only one-fourth that of the United States'. This is due to a low management level, backward irrigation technology and an incomplete support system for projects. In many irrigated areas, the irrigation quota tends to be too high, with most of the net irrigated amount per time or per mu being more than 100 cubic meters, the irrigation canal usage index being in general around 0.4. Looking at the achievements of related scientific research and tests, the economic water usage quota per mu is somewhere between 200 to 300 cubic meters, while in reality, except for a few water-short areas in the north, it is generally more than 600 cubic meters. For efficiency of per cubic water, the advanced countries in the world produce two kg of grain per cubic meter, while in China, the average amount is half a kg. As for industrial water use, the reuse rate in China in the eighties was only 45 percent, while it has reached 75 percent in the United States and Japan. Just looking at the water consumption amount per product unit, it is 25 to 26 cubic meters per ton of steel in China, while it is under 5.5 cubic meters in America, Great Britain, Germany and Japan; the combined water use amount per ton of paper is between 450 to 500 cubic meters in China, while in advanced countries, it was under 200 cubic meters as early as the seventies; for the water consumption amount per ton of beer, it is between 20 and 60 cubic meters in China, while the good level in foreign countries is under 10 cubic meters. This shows that China has great potential for saving water.

With the population increasing and industry and agriculture developing, deterioration of the water environment is also a worldwide issue. In the seventies, about one-third of the fresh water resources in the world were affected to some degree by pollution from industry, agriculture and living, and in the middle of the seventies, the polluted water drainage amount in the world was 460 billion cubic meters. In 1985, the polluted water drainage amount in China was 34 cubic meters, more than twice that of advanced nations as Japan and Germany's polluted water drainage amount for the same production output value.

II. The Water Problem Is Worsening

In 1991, the governments of 156 nations along with 50 international organizations participated in the "World

Environment and Water Resources Protection Conference," organized and held by the World Nature Protection Fund in Ireland. The report published after the conference pointed out that "economizing on water usage and purifying water resources" is one of the most severe challenges facing mankind. Early in 1972, the "Mankind and the Environment" Conference and the United Nations' 1977 Water Conference sent out a warning to the whole world: "Before too long, water will become a crucial social crisis; after the oil crisis, the water crisis will be next." The "World Resources Institute," headquartered in the United States capital of Washington, also issued the same warning: "The water resource supply for living, agricultural and industrial usage is reaching its limit."

The distribution of the world's water resources shows that over 60 percent of the earth is short of fresh water (including areas poor in resources and areas where it has been exhausted), and over 40 countries are short of water. One-third of the world's population does not have safe water, including the majority of Africa, North China, India, Mexico, part of the Middle East region and the Western United States. In the past 50 years, the world's fresh water usage increased four-fold, while the water on the earth cannot increase; in rapidly developing Asia, more than half the nations of the region are worrying about a water shortage by the year 2000; experts say that current developmental trends forecast the earth's river water will be totally consumed by the year 2100, and all water resources stored inside the earth's layers will be used up by 2230. The chief executive of the UN Environment Programme, Dr. Musitafatuoba [4476 2448 1044 3127 2094 1572] believes that once there is a water resources deficiency, it could very possibly lead to fierce conflicts among nations. He stressed that every country should put a realistic and reasonable price on their water shortage, to stop the kind of behavior that unscrupulously wastes water resources.

China is a water-short country: the per capita water resources are only one-fourth that of the global per capita, one-seventh that of the former Soviet Union, and one-third that of the United States, while the volume of water resources used in China occupies one-fifth of the nation's total of 2,800 billion cubic meters of water resource, which was half of the potential usable water resources in the country. Its exploration and use rate has been in the forefront worldwide. Due to uneven distribution of water resources, 82 percent of the surface water and 70 percent of the ground water is distributed in the Changjiang River valley and south of it, while North China, Northeast China and Northwest China, which make up over 50 percent of the country's land area, have only 18 percent of the water resources. Add to this an uneven distribution of timely rainfall, and a 70 percent concentration during the flood season from March to April, and we see a very critical water shortage situation in a wide area of North China, with the coastal cities of that area being the worst.

The development of industry and agriculture and the growth of human activities have made the water issue increasingly acute. First of all, society's demand for water increases along with the pace of domestic economic development and population growth. Expert calculations are that China's annual water shortfall is now 35 billion cubic meters. If powerful water conservation measures are not taken, by the end of this century, the shortfall will be 100 billion cubic meters, more than 10 billion cubic meters in North China alone. If we fail to build a group of water resource projects soon, the urban water shortfall will be in excess of 20 billion cubic meters. This will severely affect the entire domestic economy and the people's lives, for water has become an important factor limiting domestic economic development, which means that water exploitation and the degree of its use restricts industrial development and improvement of the people's lives.

Along with large scale water conservancy, water exploitation and degree of use has been very high in China, more than 60 percent in North China. As human beings use water, they also pollute water. Even in South China where there are sufficient water resources, although exploring and degree of use is quite low (generally below 20 percent), because polluted water is drained away without treatment, river pollution near cities has become increasingly serious, especially in the lower reaches of the Changjiang River and the Pearl River Delta river mouth, these are the worst. In 1970, the volume of polluted water draining was only 12 billion cubic meters nationally, but by the end of the 1980s, it had increased to over 30 billion cubic meters. Taking into consideration such situations as cities and industry adjusting the pace of their development and the common development of township enterprises, etc., by the end of this century and the beginning of next, the amount of polluted water will reach 100 billion cubic meters. Meanwhile, polluted areas and resources in agriculture are also increasing: at the beginning of the 1980s, the average use of pesticides on farms was 0.7 kg per mu, including the Changjiang and Rivers and their river valleys in the Southeastern coastal area where the average per mu was 1 to 2 kg. However, no more than 20 percent of these chemical materials are really absorbed by agricultural plants; 60 to 70 percent is lost in the soil as well as further polluting the rivers.

In order to exist, humans have exploited vast amounts of land, which has caused the upper reaches of rivers to lose water and soil. In addition, land has been built up at the lower reaches of rivers by means of reclaiming land from lakes; this has increasingly reduced river tunnels' and lakes' regulating ability, and flood position has risen. For instance, the flood position of the same amount of flowing Huaihe River water in 1990 was about one meter higher than what it had been in the 1950s. Adding to this economic development and improvement in people's standard of living, and the losses from flood disasters is increasing every year.

Exploitation and use of water resources in the upper reaches of a river valley will also create a series of water problems in the lower reaches of that valley; for example, water usage in the upper reaches of the Yellow River created inappropriate collections of water and sand in the lower reaches, increased deposits in the river tunnel. Add to this channel water, and it has caused river beds to wither and deteriorate, the rate of roughness to increase, flood positions to rise, and added to the effects of disasters. For another example, in order to ease water shortages in the north, plans are to channel 10 to 20 billion cubic meters of water from the Han River, and the scale of this channelling has reached one third to half of the total amount of the Han River. This will produce a series of effects on the lower reaches of the Han River and areas where water will be channelled in, as well as causing many new problems. Therefore, with the growth of human activities, the existing water problems are getting worse, while new water problems continue to appear, mankind is facing challenges of use and compensation.

III. Build a New Conception of the Water Problem

1. Water is not an endless resource. Water resources are just the water which current ecological environmental conditions permit humans to use in economic and technological situations. Clean water on the earth is a limited resource, used basically to meet the needs of human existence, societal development and environmental protection. The average water resources we have can only be reduced daily, and pollution will make water resources gradually wither. People are confronting the balance between using water resources and compensating nature. Therefore, we must establish a sense of urgency throughout society.

2. Water is an irreplaceable resource. Some resources can be replaced, but there is no resource which can replace

water. Without it, humans cannot exist. While fresh-water resources on the earth are limited, the lesson of polluting first, treating later is serious. It is especially costly to treat groundwater pollution, so we must look at water problems strategically.

3. Water using needs project investment. Water does not come automatically; resource exploitation must be paid for. In market competition, water must pass through the price system in order to reach the goal of restricting water wastage. We should create the conditions for establishing a water conservancy system which suits the situation in China, changing the situation where all of society eating "big wok water," for establishing a good circulating investment environment, and guaranteeing reasonable exploitation and protection of water resources.

4. The "benefit" and "harm" from water always co-exist. How to handle the relationship between a river's upper and lower reaches, its left and right banks, between industry and agriculture, this or that department, resource usage and environmental protection, etc., is a social issue; it is impossible to try handling water issues by purely natural scientific means. If we fail in handling our water problems, "water conflicts" will definitely erupt. In the world today, transnational river valley and transregional water disputes are appearing constantly. We must face this fact and try to work it out by means which are technological, economical and political.

Shanxi Grain Procurement

95CE0013B Taiyuan SHANXI RIBAO in Chinese
8 Sep 94 p 1

[Summary] As of 10 August, Shanxi Province had procured 496,950,000 kilograms of summer grain, fulfilling 100.7 percent of the plan, and was an increase of 77,810,000 kilograms over the same period in 1993.

Editors-in-Chief Discuss Self-Censorship

94CM0396A Beijing ZHONGGUO JIZHE [THE CHINESE JOURNALIST] in Chinese No 6, 15 Jun 94 pp 8-9

[Five articles respectively by RENMIN RIBAO Editor-in-chief Fan Jingyi, FAZHI RIBAO Editor-in-chief Wu Shenzong, JILIN RIBAO President Yi Hongbin, ANHUI RIBAO Editor-in-chief Wang Hong, and JINWAN BAO Editor-in-chief Li Fu]

[FBIS Translated Text] Journalists Should Conduct Themselves Discreetly When Alone

To stop "paid news" takes more than administrative measures and public oversight; more importantly, it requires self-awareness and self-discipline from journalists themselves. Without the latter, no matter how hard you may try to stop paid news, it will come back just like the common grass that, despite a prairie fire, grows again when the spring breeze blows. Have you not noticed that "paid news," which diminished for a time, has recently gained ground again, only a bit more secretly? No more giving away red envelopes; they have been replaced by "travel allowance" and "meal allowance." Gone are open deals; instead, expensive gifts and thick wads of cash are delivered to the door. Enterprises no longer favor tangible money and gifts but have begun to bankroll the installation of telephones and air conditioners and to pay various bills (including meals and gifts) for journalists.... All this cannot be regulated by law or overseen by the public, but relies on journalists themselves to resist the temptation. Journalists operate by themselves most of the time. They often work without any one looking over their shoulder and therefore are in much less danger of being caught red-handed than in other professions. This very nature of their work requires more than ever that "they conduct themselves discreetly when alone"—they have to be able to govern themselves, or they can become very vulnerable. In the past, conducting oneself discreetly when alone was criticized as a feudal virtue. Today, given a new meaning, it can be interpreted as an essential virtue that socialist journalistic warriors must acquire for themselves. We hope that journalists will adopt as their motto the four-character adage of "junzi shendu"—gentlemen conduct themselves discreetly when alone—and hang the adage in their studies and inscribe it on their desks.

Journalists Should Take Good Care of Their Own Images

A social survey indicates that the public does not have a good image of journalists, and that the people generally do not speak favorably of them, either. Reliable as the survey is, we think it is not fair, because the majority of journalists have always loved the people. They work hard to serve them and throw in their lot with them. The profession of journalists is a respectable one in China. Those who disgrace the profession are only a small handful; however, few as the black sheep are, they can be

as damaging as "a tiny piece of dung from a mouse that spoils a whole pot of soup." True, one flaw cannot obscure the splendor of a beautiful jade; but, on second thought, the quality of the journalistic profession as a whole indeed has for years been in need of improvement. With the unprecedented boom of the journalistic industry, new newspapers and periodicals are emerging like bamboo shoots after a spring shower. As the establishment of the profession continues to grow bigger and bigger, journalism seems to suffer "depreciation as a result of inflation." The wide qualitative gap among journalists is a very serious problem. Nowadays, isn't it commonly heard that, regarding themselves as "kings without a crown," some journalists, when out gathering news, put on airs, bluff around, and do anything but an honest day of work, trying to fish for money wherever they go and using their reports or newspaper page space for personal gains? Also, aren't some big-name journalists and editors in positions of leadership engaged in paid news or trading their authority for money? They either forget or simply do not understand what journalistic ethics and journalists' noble mission and great responsibility are all about and cast the lofty ideals and their professional integrity to the winds. Journalists are engineers of human souls and educators; like those comrades working on the propagandistic and ideological front, they share the same great task of "molding people with a noble spirit." Educators must first be educated themselves, and those molding fellow human beings must have a lofty spirit themselves. To improve the image of our profession and to cherish our own images, we must exert ourselves to learn, enhance our ideology and ethics, and improve the overall quality of our profession; otherwise, our profession will have no hope, and the party and the people will not trust and be satisfied with us.

Stress Strength of Character

Stressing strength of character has long been a fine tradition observed by fair-minded Chinese intellectuals as they strive to enhance their personal integrity and uphold morality and justice. Socialist journalists should carry on and spread the quintessence of this tradition.

Stressing strength of character means, first of all, "never be subdued by force." Journalists should never bow before any power in their effort to adhere to truth and the party spirit of socialist journalism, to persist in the correct direction of public opinion, and to cling to the lofty main theme. However, under the market economic conditions, tempted by the colorful world of commodities and inundated by money worship, we believe that journalists must make an extra effort to fortify themselves so that they "will not be overwhelmed by wealth and rank or subdued by poverty and humbleness," and that they must be strict with themselves and "conduct themselves discreetly when alone." The unique nature of the journalistic profession and its unique position in the entire socialist cause dictate that journalists must have lofty ethics and be honest and upright. Journalists should never be blinded by the lust for gain or sell their honor

for money; they should never apply the principle of commodity exchange to journalism and engage in "paid news." In this way, we may persist in the correct direction of public opinion, and our reporting can be objective, truthful, impartial, and in keeping with the interest of the party and the people and have credibility and authority. Without stressing strength of character, conducting oneself discreetly when alone, and having self-discipline, while at the same time being blinded by the lust for gain or subduced by poverty, journalists could easily be shot down by the sugar-coated bullet of money worship and corrupted by the corrosive of paid news. Consequently, they would dare to play dirty tricks, stir up scandals, and commit evil deeds, thereby disgracing socialist journalism, hurting the interest of the party and the people, and impeding the grand cause of reform, opening, and the four modernizations. In the case of Shen Taifu, some journalists committed crimes as a result, which should serve as a bitter lesson for us all. We should ponder this case and be prudent.

Today stressing strength of character and personal integrity is of unique significance to journalists.

Enhance Self-Discipline Measures

Today the country has 500,000 journalists. The quality of this huge number of journalists as a whole has a fundamental bearing on the quality of journalism.

Quality encompasses many different aspects. In short, it means to be politically strong, professionally proficient, and honest. At the moment what we need to be vigilant about and tackle rigorously is how to guard against the corrosive effect of money worship and enhance the mastery of ethics and self-discipline.

Self-discipline starts with a high degree of self-awareness by journalists. Working without any supervision, in particular, journalists must be able to govern themselves and abide by ethics. They should conduct themselves in such a way as to enable them "to face the world without any sense of guilt and invite no gossip from neighbors"—a statement quoted from the prominent statesman Yu Qian of the Ming Dynasty. Let us cherish and safeguard the good reputation of our profession.

Correct guidance and stringent supervision are also essential. For those who cannot conscientiously conduct themselves accordingly, we must strengthen the binding mechanism within the profession and be tough in fighting against money worship. In addition to organizing study and training sessions and improving the ideological and political awareness of journalists, we must diligently apply ourselves to curing those diseases that are already afflicting our profession (such as "paid news," using reports or newspaper page space as bargaining chips, and other common and recurrent diseases). Meanwhile, we should establish and improve corresponding evaluation and observation systems (such as tying the examination of how journalists observe

discipline and ethics to the assessment of job performance, promotion, the selection of advanced workers, and rewards and punishments), to ensure that the reputation of China's journalism will not be tarnished.

Stop Deceiving Yourself

Compared with a year ago, "paid news" has already been thoroughly discredited and has diminished a great deal. However, what is noteworthy is that even now there are still some journalists "burying their heads in the sand" and continuing to engage in "paid news." Is it not odd? As I see it, there are two major reasons why paid news is banned yet still not checked. First, in the eyes of those "burying their heads in the sand," "paid news" is like a piece of strong-smelling preserved tofu, which may smell bad but tastes good in the mouth. Thus, in pursuit of personal gain, they knowingly take the forbidden fruit. Second, some departments and units are lax in the fight against "paid news," not to mention that a few of them even show a total lack of interest in paid news or simply turn a blind eye to it. We should draw lessons from the small handful of journalists involved in the illegal fundraising case of Shen Taifu, who followed Shen's example and violated the law and committed crimes; unrelentingly enhance ethical education among journalists; stress self-supervision and self-control; and foster the ideal of serving the people wholeheartedly. This should serve as a fundamental guarantee for putting an end to "paid news." In addition, we should seriously carry out relevant rules and regulations; any violation should be investigated rigorously. If everyone acts like this, we will be able to stop the evil trend of "paid news."

Prevalence of Falsification

94CM0396B Shanghai SHEHUI [SOCIETY]
in Chinese No 8 Aug 94 p 1

[Article by Lu Zhen]

[Text] Today one of the most striking phenomena in China is the prevalence of falsification in society. After being unchecked for decades, lying, like entering by the back door (securing advantages through pull or influence), has become part of the essential code of conduct for some people. After more than 10 years of suppression, fake, shoddy commodities have become part of our lives, like Coffemate dissolved in coffee. Under normal circumstances, these two "old traditions" are shocking enough. But compared to "newer and smarter tricks" that have kept emerging and outstripping previous ones in recent years, they are mere child's play. Now phony organizations—such as front companies, sham collective enterprises, sham village and town enterprises, and sham foreign ventures—spurious activities—such as false development, false importation, false inspection, false retirement, false mail order, false employment service, false marriage, and false divorce—and forged documents—such as counterfeit instruments, counterfeit certificates, counterfeit bank notes, counterfeit checks, counterfeit invoices, and counterfeit account books—

have become so numerous and common that people often cannot help taking genuine things for fakes. In particular, the art of falsification has almost reached its pinnacle in the forging of personal identities, ranging from bogus senior cadre, bogus plant director, bogus manager, bogus party secretary, bogus party member, bogus policeman, bogus soldier, bogus judge, bogus reporter, bogus doctor, bogus director, bogus actor, bogus screen star, bogus teacher, bogus expert, bogus advanced worker, bogus model worker, bogus paradigm, bogus Overseas Chinese, bogus foreigner, bogus millionaire, bogus pauper, bogus husband, bogus wife, bogus child, down to bogus monk, bogus nun, bogus Taoist priest, bogus beggar, bogus woman, bogus man, bogus patient, and bogus deceased. In short, almost everything under the sun—from spoken language, written language, articles, to people—can be falsified. Antifalsification campaigns are being stepped up daily, yet the practice becomes increasingly rampant. More and more people are engaged in falsification, their techniques are becoming more and more sophisticated, and the consequences are becoming more and more damaging.

Faced with this trend of falsification that has for years defied all efforts to suppress it, people are profoundly puzzled: Why does this practice have such a strong hold on society? Has falsification become second nature to the Chinese people? Perhaps not yet, but it is apparent that many people in China have discarded age-old morals and personal integrity. What sets falsification apart from everything else is that it is a deliberate breach of the law; falsifiers know very well that they intentionally deceive other people. This then has to be preceded by the premise that they have thrown away morals and self-discipline. Without a general moral breakdown, falsification will not take hold of society; conversely, when the latter happens, it means the majority of the people no longer govern themselves with morals.

This leads us to the second reason why falsification has become prevalent in society; that is, falsification pays; what is more, it is more profitable than being honest. The practice pays in four ways: 1) once a trick of falsification has worked and turned a profit, people may still have no idea that it has ever taken place; 2) even if people learn about the case, it may not be exposed and brought to light; 3) even if the case is exposed, the offender may not be punished; and 4) even if the offender is punished, he or she may not be completely out of luck, as many means and devices are always available to mitigate the situation, and eight or nine out of 10, the offender will still come out with some gain in the final count. Tempted by this very possibility of gain, many people let themselves be swept off their feet by the tide of falsification, which leads to its prevalence in society. This works like Gresham's Law, which maintains that bad money drives out good money. If people can use bad money containing less gold than good money to buy the same thing normally fetched with good money, they will stop paying with good money. Chao Cuo of the Han Dynasty described the phenomenon like

this: "The way people are attracted to gain is like the natural movement of water, which always flows downward in all directions without any discrimination." As individuals, some people can sustain themselves on morals and would rather starve to death than eat ill-obtained millet. To people as a group, on the other hand, morals are a mere device of defense they employ as they forage for food; should morals obstruct their foraging and cause trouble, they would simply cast them away like a pair of worn-out shoes. This difference between individual and group behavior is the key to understanding all social problems in today's China, including the prevalence of falsification.

Thus, the question comes down to how to make falsification unprofitable. Precisely on this point, we see the third reason—and the most profound one—for the prevalence of falsification, namely our system of social rewards and penalties is fraught with problems in terms of where and how it is enforced. Instead of punishing falsifiers, we often turn around and penalize honest people and those waging wars against falsification. When we do punish falsifiers, on the other hand, we often barely scratch their skin without getting all the way down to their bones and muscles, thereby allowing falsifiers to gain. In essence, this social mechanism is in itself inducing or even compelling people to falsify. As a matter of fact, it is also without a doubt the most fundamental reason for the prevalence of falsification in society. This is the very mechanism under which the merciless logic of survival pushes people onto the wrong track of falsification.

Therefore, it is not that falsification has become second nature to the Chinese people, but that the present mechanism of social rewards and penalties has gone wrong, which has, in turn, distorted people's moral character. We sincerely hope people will not lower their individual responsibility or make fewer moral demands on themselves on grounds that the fundamental reason for the prevalence of falsification lies in society, and that they will not overlook the fact that the prevalence of falsification is a social issue simply because they as individuals are also responsible for the problem.

Economic Interpretation of Corruption

94CM0364A Shanghai FAXUE [JURISPRUDENCE]
in Chinese No 151, 10 Jun 94 pp 7-10

[Article by Li Guozhi (7812 0948 2535): "On Corrupt Behavior and the Legal Control of It"]

[FBIS Translated Excerpt] [passage omitted] I. The Basic Nature of Corruption: The Exchange of Power and Money

To cure corruption we must first establish a more scientific definition of corruption and corrupt behavior. It can be said that there are many different views on this issue. Some use the aspects of society to sort corrupt phenomena into those of the economic arena, the political arena, and the cultural arena. Some summarize

corrupt phenomena into several types based on the degree of damage caused. Some point out which actions are corrupt behavior within party life, and so forth. I assume that all of these categories clarify the nature and characteristics of corrupt behavior from different perspectives. One should say that all of these views have a certain validity and it is not necessary to discuss which view is the most accurate. It is also not the intent of this writer to put forth a scientific definition of corruption to seek the concurrence of a majority in theoretical circles.

As everyone knows, corruption is a common social phenomenon. Using a strict definition, corruption has existed, to a greater or lesser extent, in every country and every dynastic period. But the corrupt phenomena that have arisen in each country during each era have unique characteristics and different forms of expression. The only way to apply effective measures to control and eliminate corruption is to first grasp its unique characteristics, which are closely associated with the characteristics of the nation and the era, and analyze its origins. Thus it is completely necessary to undertake an inquiry into the basic nature and timely characteristics of the corruption currently occurring in Chinese society, in search of a relatively accurate and realistic common understanding of it.

Now then, what exactly are the current characteristics of corruption in China?

I agree with a simple and precise formula advanced by an economist: "corruption—the exchange of power and money." This conclusion was inferred from the contemporary Western "rent-seeking theory."

A simple explanation is needed here: How does one use the "rent-seeking theory" to explain the origins of corruption? The basic logic of the theory can be summarized as follows:

First Point: The creators of the "rent-seeking theory" felt that some resources on the planet (first of all land) are scarce and, because supplies do not meet demand, generate surplus income. This is called "rent." For example, landowners are able to derive rent from their monopoly of the ownership and commercial rights of the land. In the same way, in contemporary commodity society, the government intervenes in the economy, suppressing equal competition in the market. Artificially enlarged gaps between supply and demand can also generate surplus income.

Second Point: The price differences created by the government's reliance on administrative controls and restrictions in the market are a type of "unproductive profit." This not only creates a great waste of social resources and wealth but also impedes the advancement of social modernization.

Third Point: Since "rent" can be obtained through government intervention in the economy and administrative control, then of course there are people who

engage in activities in pursuit of rent. These "rent-seeking activities" are characterized by government officials using legal or illegal methods to conduct "exchanges of money and power" and acquire great ill-gotten gains. After World War II, India and other South Asian countries became prominent examples of this. Markets with equal competition had not yet formed in these countries and the governments carried out comprehensive controls of industry, agriculture, and commerce. The result was widespread searching for rent in every field and profession. Whoever had power sought bribes. The people call this type of serious corruption, with prevalent searching for rent, the "India disease."

The "rent-seeking theory" of modern economics also has undeniable relevance to the corruption occurring in China. Actually, when the "official profiteering movement" arose in the 1980's, the common people said with one voice that the "official profiteers" and "private profiteers" were exchanging money for power. Official profiteering is to "use power to rake in money and to use power to gain private advantage." Private profiteering is to "use money to buy power to rake in even more money." The current situation in China illustrates this exactly. The "rent-seeking activity" of exchanging of money and power is a common phenomenon and a prevalent social illness in many countries, particularly developing countries.

It should be noted that the aforementioned "corruption: the exchange of power and money," when expressed as a formula would be corruption = the exchange of money and power. The basic intent of this proposition is to be an admonitory aphorism to inspire self-examination. As a definition, however, of corrupt phenomena and corrupt behavior, it would clearly be quite lacking because the variety of forms and types of corruption is extensive and the exchange of money and power is only one type. This writer's view is that a more accurate formulation would be "the exchange of money and power" is currently the main form and basic characteristic of corruption. It is the most harmful type of corruption and is the root of the harm that evolves into other forms of corruption (such as excessive eating and drinking—wasting others' funds, gambling, prostitution, drug abuse, and forfeiting one's personal integrity or the integrity of the country).

The great importance of clarifying this issue is very clear.

First, since the main subjects of corrupt behavior in China are people in every field, profession, and arena who control definite power and use these powers to engage in the "exchange of money and power" to seek personal gain, then the main spearhead should be pointed at officials who "exchange money and power." Those corrupt, bribe-taking elements who unjustly occupy important posts and use great power to rake in large amounts of money should be pursued vigorously. If this is not done, and there are only honest government reports made to the masses (of course this must be done

also), then perhaps only the flies will be struck down and not the tigers. It may even be that the "small ones are struck down to wear shackles, and the big ones are struck down to write self-criticism statements." This would be a superficial effort but would not be helpful in eliminating the roots of corruption.

In addition, the main characteristic of corruption is power entering the market. The actual nature of "the exchange of money and power" is a change in the nature of power, as the public power of society is transformed into the private privilege of officials, becoming the capital for their dirty deals. The "public servants" who are to serve the people become businessmen engaged in speculation for profit, vampires who embezzle public property and profit from others' labors. This is where the seriousness of this problem lies. If it is said that those who promote bourgeois democracy and oppose socialism and the Communist Party are following bourgeois liberalization in their thinking and philosophy, then those severely corrupt elements who are involved in "exchanging money and power" and undermining the foundations of socialism are following capitalism in their actions (more accurately speaking bureaucratic capitalism).

Furthermore, we should notice that there are patterns of type and quantity in the corrupt phenomenon of the exchange of money and power. In terms of type, it is a kind of "black trade," the harm to the public most detested by the masses. In terms of quantity, the severely corrupt elements involved in exchanging power for money and accumulating great illicit gains are after all a small minority among the officials of the ruling party and the government. Hence, if our party and government only adopt correct, resolute, and effective measures and rely closely on inspiring the broad masses, it is entirely possible to gradually eliminate the public menace of corruption.

The Exchange of Money and Power: Where are the Origins of Using Power for Personal Gain?

To review this issue, two points must first be clarified: the first is the inevitability of the exchange of power and money and the use of power for personal gain appearing in society during periods of great social change and transition. History in the West as well as the East has proven repeatedly that nearly every country in the economic transition period from a natural economy to a market economy has experienced a time when the "rent-seeking phenomenon" is fashionable and a group of corrupt officials using power for personal gain emerges. It is not unexpected that this would occur in China during the process of creating a market economy and carrying out modernization. It would be a naive fantasy to believe that we can completely prevent and thoroughly eliminate all corruption as we carry out reform and opening and implement the transition from a commodity economy to a market economy. The second point is that corruption arises for multiple reasons. The exchange of money and power is a syndrome. Its onset

and spread is caused by economic reasons as well as political and philosophical reasons, current reasons as well as historical reasons, and internal and external reasons. It is the intermingling and interdependence of these factors which leads to the corrupt phenomena of widespread rent seeking, corruption, and bribery.

The people will ask: What are the main causes of current corruption in China?

1) During the transition period from a planned economy to a market economy, the large-scale price differences (or rent) caused by the "dual track system" are the economic causes of the emergence of exchanging money for power (rent seeking activity).

Under this approach, according to the "rent-seeking theory" from the West, the corrupt behavior of exchanging money and power is power entering the market, a "rent seeking activity" as individuals use their monopolistic positions to gather surplus profits. Without "rent," or government intervention in the economy and the price differential income created by artificial gaps in supply and demand, of course there would be no "rent seeking activity."

The practical experiences of the more than forty years since the founding of the country, especially the tremendous changes in Eastern Europe and the collapse of the Soviet Union, have informed us that pursuing a commodity economy with a "communal cooking pot" sends the people down a dead-end road. The only way is to pursue a socialist market economy. It is unavoidable, however, that a dual track pricing system be used during a certain period of the transition process from a traditional planned economy to a market economy. The widespread implementation of a dual track pricing system has created an unprecedented large-scale price gap, or an unproductive surplus profit (rent). According to some scholars' statistics, the total price gap each year during the years from 1981 to 1988 was as high as two to three hundred billion yuan, or 20 to 25 percent of the GDP, in addition to interest gaps, currency exchange gaps, and tax evasion. The total amount of this rent gained through the labors of others is even more shocking. Some scholars made more detailed calculations of the rent in 1988. The total price gap in government controlled commodities was over 150 billion yuan. The interest gap for state bank loans was over 113.8 billion yuan, and the currency exchange gap for listed prices of foreign exchange used for imports was over 93 billion yuan. The combined total of these three price gaps is over 356.6 billion, or about 30 percent of the national income. With the addition of tax evasion and other miscellaneous items totaling at least 100 billion, the total rent was over 400 billion, or about 40 percent of the national income in 1988. This huge figure for rent is the economic root cause of rent seeking activity, graft and corruption.

It is necessary to explain here that some people lay the blame for this graft, or the exchange of money and

power, on the market economy, and this is incorrect. The facts are exactly the opposite. The flourishing of the exchange of money and power is the result of inadequate development of a market economy and the lack of established mechanisms for fair competition. The exchange of money and power will only gradually disappear if the pace of building a market economic system is hastened and the "dual track system" is gradually eliminated, thus decreasing price gaps. This was precisely the situation in Germany, Singapore, and Korea.

2) The excessive centralization of power and the lack of effective controls and oversight are the political reasons for power entering the market and the prevalence of the exchange of money and power and corruption.

Corruption, which is primarily the exchange of money and power, is a type of "rent seeking phenomenon" which, expressed as a formula, is: Corruption or rent-seeking activity = the power of a monopoly economy + the rent (price gap) generated by the monopoly. Only the combination of power and rent can produce rent-seeking activity. Both are essential. As outlined above, during the period of transition from a traditional commodity economy to a market economy, large-scale price gaps (rents) occur every year in China. The question is what direction will this sum of rent flow and into whose hands? If it goes into the hands of opportunists and profiteers, a group of nouveau riche will spring up. If it goes into the hands of officials seeking to use authority for personal gain, it will generate a group of "official profiteers" and create corruption which will change the nature of the country.

Government officials with a monopoly on public power have an advantage and grasp opportunities first in the "rent seeking activity" of pursuing price gaps. The traditional political model in China has provided exceptionally advantageous conditions for officials seeking rent.

First, due to the need to adapt to a planned economy during the first thirty years after the country was founded, China consistently emphasized and insisted upon the unified leadership of the party, with no separation between the party and government, no separation between the government and enterprise, and with the party committees overseeing administrative leaders and administrative leaders overseeing the economy. This was based on Comrade Mao Zedong's principles of leadership: "Authority on major issues is centralized, authority on minor issues is diffuse; party committees make decisions and everyone follows," and "the party leads everything and everyone, workers, peasants, businessmen, scholars, soldiers, East, South, North, West, and Center." All economic activity, as well as the economic life of the people, was under the complete control of the absolute leadership and administration of the party. This is the economic model that we have consistently followed during the past several decades. Later, based on Deng Xiaoping's instructions, we discussed and suggested the separation of functions of the party and

government, and the separation of ownership rights and operation rights of state-owned enterprises, etc. However, a multitude of views were put forth, so that we still have not arrived at a commonly held authoritative view on the question of an economic leadership system, nor have we confirmed a system. Actually, a "dual track system" or "multi-track system" exists similarly in the leadership system. Sometimes government and enterprises are separate, but actually the direct intervention of government in enterprise has never been interrupted. This has opened a door of convenience for some authorities to charge into the marketplace and use the power in their hands to seek "rent."

Secondly, during the period of a market planned economy in the past, our slanted emphasis was always towards centralization in neglect of democracy, towards unified views and actions in neglect of mutual checks and balances among authorities, and towards the importance and necessity of revolutionary power (this is unquestionably correct) in neglect of the implementation of systematic and effective oversight over authority. In China, authority lacking in limitations and effective oversight is prevalent and the abuse of power, the loss of control of power to the point of power becoming degenerate, is not uncommon. After experiencing many frustrations and paying a heavy price, some of us have begun to realize a truth: any power contains the potential for expansion and corrosiveness. Power which is not subject to any limitations or oversight ultimately will become corrupt.

In addition, bloated institutions, a proliferation of superfluous officials, and low salaries for government workers have led some units and cadres to become involved in moonlighting or "jumping into the economy" as a means of increasing their income. This is a factor leading to the exchange of money and power and the use of power for personal gain.

3) The mistaken values of some officials and the ideological relapse into "departmental selfishness" are the ideological root causes of the exchange of money and power and the degeneration into corruption.

According to the theory of behavioral psychology, the behavioral model of individual behavior is external stimulation - individual needs - motivation - behavior - goal - state of satisfaction. There are six levels of general needs of individuals - the need to survive, the need for safety, the need for intimacy (love and friendship), the need for respect, and the need for ego perfection. The values of the behavioral goals of China's party and government cadres should be to serve the people, make contributions to the country and society, and to be good "public servants." During the periods of revolution and establishing the country in the past, most of our cadres were like this. Thus they earned the affection and trust of the broad masses. However, in recent years, because a market economy has just been established, everything everywhere revolves around money. A growing number

of cadres and leaders have developed the error in their values of "looking to money for everything." The main goal of their behavior is the pursuit of material enjoyment for themselves and their families, in abandonment of the goal of serving the people and forgetting their status in society as "public servants." At the same time that the bourgeois ideology of "looking to money for everything" runs rampant, China's feudal ideology of thousands of years of "departmental selfishness" is resurging and clouding the minds of many of China's cadres like a nightmare. This is demonstrated most obviously in that many officials adopt the style of the old man in the feudal yamen. The masses say that there are some units and some cadres where "getting in the door is difficult, seeing someone is difficult, and getting anything done is difficult." If money is given, something gets done. If a lot of money is given, it gets done quickly. If no money is given, nothing gets done. When it comes to hiring personnel, some leading cadres are involved in "the petticoat style," or hiring only relatives. The masses have a couplet for them: "If he says you will do then you will do, you will do even if you cannot do; if he says you will not do, then you will not do, even if you can do."

4) Finally it must be pointed out with emphasis that the legal system is not complete. The legal system for honest government is particularly weak. This is an extremely important requisite condition for the emergence and spread of the exchange of money and power and corruption.

Honestly speaking, corruption is an inevitable phenomenon in any society, especially under the conditions of a market economy. The key is how to use legal weapons to control the emergence and spread of corruption so that it does not become a serious public menace stifling the vitality of society. This is an important task faced by our legal experts. [passage omitted]

Beijing University Views Theoretical Basis for Socialism

94CM0393A Beijing BEIJING DAXUE XUEBAO
[JOURNAL OF BEIJING UNIVERSITY] in Chinese
No 4, 20 Jul 94 pp 120-121

[Article: "Academic Newsbriefs from Beijing University"]

[FBIS Translated Excerpt] The Beijing University Center for the Study of Socialism with Chinese Characteristics Holds a Conference on the Theoretical Bases and Key Issues Concerning Socialism With Chinese Characteristics

On 3 May the Beijing University Center for the Study of Socialism with Chinese Characteristics announced its founding and held its first inter-disciplinary conference on the theoretical bases and key issues of Socialism with Chinese characteristics. Famous scholars from Beijing University and other schools expressed important opinions while participating in discussions. Below is a summary of the issues prominent in the discussions:

I. Coordinating Stability, Reform, and Development.

Professors Wu Shuqing [0702 2885 7230] and Wang Dong [3769 2639] believe that the turn of the century will be a period that will decide the destiny of the progression of world history and the expansion of China's economy. Establishing the new system of a socialist market economy is without doubt a complex project of social engineering that calls for the handling and resolution of an entire series of problems and contradictions before success can be achieved. In order to insure social stability, overly ambitious attitudes toward quick success and enrichment must be overcome, and the problem of finding work for the unemployed must be properly solved. The recommended formula for coordinating stability, reform, and development is: active and comprehensive stability + controllable systems reform + measured and even development. The harmonious union of the three is the only road to follow in order to emerge smoothly from the key transitional period. The renowned 94-year-old economics Professor Chen Daisun [7115 1486 1327] noted that market economies have been around a long time, but a socialist market economy is something new. A market economy cannot be achieved in one fell swoop, as with the "shock treatment" used by the Soviet Union and Eastern Europe on the recommendations of Western scholars, the results of which should serve as a stern warning. We are currently within a period of re-tracking systems; if we fail to attend to continuity and stability, or if we move blindly without first examining the economic lessons learned by other nations, then we may bungle and obstruct the work of reform. The famous modernization theory researcher Professor Luo Rongqu [5012 2837 3255] further noted that making the transition from a planned economy to a market economy can be described as "endlessly complex." The courses of Chinese and Western economic development have manifested a curious phenomenon in which stagnating Western economies want to speed up but cannot, while the Chinese economy has persistently overheated and cannot slow itself down. High-speed economic growth may lead to inflation and economic disorder in excess of society's ability to withstand them. Economic growth is not the same as economic development; economic development implies much more than does economic growth. In the process of economic construction, we have to take note of harmonious development in terms of factors both economic and non-economic, material and human.

II. Integrating reform and development for new forms of market economy, democratic government, and spiritual civilization.

Philosophers Huang Nansen [7806 2809 2773] and Wang Dong [3769 2639], as well as economists Zhao Jing [6392 7231] and Hu Daiguang [5170 0108 0342] agree that in world history's progress toward modern industrialization and social modernization, market economy, democratic government, and scientific culture are "of a piece" due to their being inherently inter-related, interactive, inseparable, integrally coordinated,

and systematically coupled. Construction of Chinese socialism—a merger of “new-form market economy, a new-form democratic government, and a new-form spiritual civilization”—should become the overall goal in China’s move to modernize. China’s well-known contemporary elder philosopher, the 85-year-old Professor Zhang Dainian [1728 1486 1628], indicated in his speech that in the wake of reform and opening up, the economy has developed greatly, bringing with it extremes of individualism, money worship, and hedonism. The new economy calls for a new spiritual civilization, and to construct a new spiritual civilization it is necessary to promote the Chinese national cultural tradition as well as the qualities of moral character in traditional culture. First, human dignity: A person’s dignity cannot be denigrated, nor should one denigrate the person of others. “A gentleman can be slain but never insulted.” One must respect one’s self as well as others. Second, social responsibility: One must have a sense of personal responsibility toward the people, the nation, and society; there should be a sense of one’s obligation to the world, and a sense of responsibility that puts duty before pleasure.

III. *Inter-relating socialism with Chinese characteristics, Marxism-Leninism, and Mao Zedong Thought.*

The assistant director of the Central Party School Gong Yuzhi [7895 5148 0037] and the director of the China Academy of Social Sciences Marxism-Leninism Institute, Professor Jin Huiming [7246 6540 2494], believe that the theory of socialism with Chinese characteristics is the inheritor of the fundamental theory of traditional socialism and that it builds on the latter’s accuracy and scientific nature while correcting its unreasonable aspects. More concretely, the theory of socialism with Chinese characteristics proposed by Deng Xiaoping is directed at three issues: 1) That which we have in the past stressed in theory but neglected in practice. This includes standards of productivity, which were first mentioned by comrade Mao Zedong but were over the long term subjected to the faulty ideology of the “left,” who turned exclusively to class struggle and never shifted their focus therefrom. 2) Development of productivity as the first priority in the first stage of socialism. In order to free ourselves from poverty and backwardness in the first stages of our nation’s socialism, we must concentrate all our work on developing productivity. 3) The competition between the two major systems: contemporary socialism and capitalism. Only by bringing about a productivity greater than that of capitalism can China’s socialist system consolidate its material base. Professor Zhao Jiaxiang [6392 1367 4382] of the Department of Philosophy thinks that the following problems must be resolved for the union of a market economy with the socialist system: 1) integration with a system of economic ownership that retains public ownership as its mainstay but coexists with diversified economic elements; 2) integration with a distribution system based primarily on distribution according to work; 3) guarantees of class interests, with the working class given

foremost status; and 4) unwavering maintenance of Marxism in its guiding role, but with the understanding that Marxism must not become dogmatic and that in the new historical period Marxism should be given new content. Huang Nansen [7806 2809 2773], Chen Zhihang [7115 1807 1424], and Wang Dong [3769 2639] all disagreed with the notion that the theory of socialism with Chinese characteristics, to emphasize its unique and innovative character, should be completely severed from and opposed to the overall development of Marxism-Leninism and Mao Zedong thought. They believe that the relation of the inheritance, selective use, and development of Marxism-Leninism and Mao Zedong thought to Chinese socialism should be explicated practically, concretely, and within a historical perspective. “Inheritance should eschew excessive conservatism, selection should not compromise the fundamentals, and development should not depart from principle aims.”

Academic Activities at the Center for the Study of Chinese Traditional Culture Win Acclaim in China and Abroad

The Center for the Study of Chinese Traditional Culture at Beijing University was established in early 1992. The director is Chinese Literature Department Professor Yuan Xingpei [5913 5887 7198], and the assistant director is the head of the Social Sciences Office Professor Wu Tongrui [0702 0681 3843]. The Center’s purpose is to make full use of Beijing University’s strong resources in literature, history, philosophy, and archaeology in order to explore and promote China’s outstanding national culture and to advance the construction of socialist spiritual civilization and the development of scholarly pursuits. Its chief tasks are to organize and coordinate research energy in traditional culture in all departments at Beijing University and to promote high caliber research, including interdisciplinary integrated research as well as specialized research in each discipline. Research is meant to uphold correct orientation in the humanities, realize the spirit of the age, stress the compatibility and complementary nature of Chinese and Western culture both ancient and modern, pursue thorough and firmly grounded scholarly foundations, and advocate a scholarly style both practical and innovative.

The Center has performed three main tasks since its founding. First, it has initiated the annual journal *National Studies*, the first issue of which was published in May 1993 and carried 23 articles, totalling 600,000 words, that reflected the state of scholarship at Beijing University in fields relating to philosophy, religion, history, archaeology, literature, philology and interpretation of artifacts, Western-language translations of Chinese ancient books and records, and studies of the cultures and histories of minority peoples. The journal received widespread praise in particular for bringing back the banner of “national studies.” The journal’s second issue is already at the printer’s and will soon be released. Second, the Center has 33 monographs

planned, including Professor Xiang Da's *Dunhuang Epigraphy*, Professor Lin Geng's *Concise History of Chinese Literature* (Song, Yuan, Ming, and Qing), Professor Wang Yongxing's *Research on Tang Dynasty Military Correspondence from Dunhuang Excavations*, Professor Su Bai's *Archaeological Investigation of the Zangchuan Buddhist Temple*, and Professor Tang Yijie's *Collected Scholarly Works of Tang Yongtong*. Already published are Professor Ji Zhenhuai's *Records of Lai Zhi*, Professor Wang Jian's *Essays on Han and Tang History*, and Assistant Professor Wang Xiaofu's *History of Political Relations in the Tibetan Muslim Empire*. Four additional books have been completed and will soon be published. Third, a cooperative venture with the U.S. Nanhai Company is underway to film a television series on Chinese traditional culture. Of the 100 episodes planned, 50 have been completed and will be broadcast serially at Beijing University and in the United States and Canada.

These three projects carried out by the Center have enlivened the academic atmosphere at Beijing University, advanced the construction and development of literature, history, and philosophy, and aroused interest and passion toward the study and research of Chinese traditional culture for large numbers of students. Students have established national studies research societies, which have jointly organized "National Studies Month" activities and sponsored a dozen or so national studies lecture series and symposiums, participants in which number almost 10,000. The various news media, in a succession of reports, have devoted a high level of attention to the "national studies fever" emerging at Beijing University. On 16 August 1993, under the headline "National Studies Come Quietly to Life on Beijing University Campus," the PEOPLE'S DAILY printed a full-page of articles on the achievements of the Center for the Study of Chinese Traditional Culture at Beijing University and on the fruits of current research in Chinese traditional culture research at Beijing University. Again on 18 August, the PEOPLE'S DAILY in its front page column "Talk of the Day" published the celebrated essay "National Studies: Gone for Too Long," praising Beijing University for its insight and boldness in initiating national studies research. On 14 November, the China Central Television program "Eastern Focus" did an on-the-spot report from Beijing University entitled "Revelations from National Studies Fever." The U.S. WORLD JOURNAL and CHINA PRESS, as well as newspapers in several southeast Asian regions, have rated highly the Center-produced television series "Lectures on Chinese Culture" for its excellent content and high standards. Moreover, the Center's work has received the attention and support of the State Education Commission and the central authorities. In conference with Beijing University instructors, Vice Premier Li Lanqing listened intently to Center work reports. He said: Promoting China's outstanding traditional culture is an urgent item in the construction of socialist spiritual civilization; Beijing University should be commended

for the great efforts it has made in this direction. He also stated that filming television programs on traditional culture and writing books on traditional values has much practical significance in helping the next generation to construct a correct view on life. He applauded Beijing University for its novel achievements in the field of traditional culture research.

The work of the Center is now at a new stage. It is currently cooperating with China Central Television to produce a 150-part television program called the "Chinese Traditional Culture Lecture Series." Filming is complete for the three pilot programs of the series—"Zhu Geliang," hosted by Professor Zhou Yiliang, "Beijing in the Ming and Qing Dynasties," hosted by Professor Hou Renzhi, and "Chinese Typesetting and Woodblock Printing," hosted by Professor Bai Huawen. These will be test broadcast soon to gauge audience reaction. Topics for the remaining 150 shows have been decided upon, and hosts have been found. Eventually, over 120 Beijing University professors will make their appearance on television before audiences numbering in the hundreds of millions. The Center has also signed a contract with Henan Educational Publishers for the joint publication of 100 volumes in "National Studies Book Series" to be completed in 1996.

New Trends in College Graduates' Job Assignments
94CM0365A Shanghai SHEHUI [SOCIETY] in Chinese
No 114 Jul 94 pp 12-14

[Article by Yang Diange (2799 3013 7041): "Taking Great Strides To the End of the Earth"]

[FBIS Translated Excerpt] Generally speaking, the employment situation for the college graduates of 1994 is good. The supply and demand of graduates shows clearly that, as in the past, demand exceeds supply but the specific situation still needs a specific analysis.

The general trends in the demand for graduates this year is that applied sciences are in even greater demand. The shortages still exist in applied sciences this year. In disciplines such as engineering, medicine, foreign languages, finance and economics, the actual demand of society far exceeds the naturally available supply.

There are strict limits on entering the ministries, but production, education, and research units need large numbers of personnel. Thus, graduates must make ample mental preparations to face the basic level at the front line.

There is a pressing need for personnel in the coastal areas, with a great demand for graduates in Guangdong, Jiangsu, and Shandong. However, demand for graduates in the interior provinces has begun to grow at a greater rate this year.

Although enterprise units need large numbers of graduates, they typically favor those with four-year university

degrees, accepting a limited number of graduates from specialized institutes [less than four years].

The demand for personnel is developing towards a complex model. The fixed requirements of units hiring personnel are becoming more and more harsh. Can the applicant use a computer comfortably? Can the applicant type in English? Does the applicant have a level 4 or level 6 certificate in English? Does the applicant speak fluent English? How is the applicant's handwriting? How is the applicant's organizational ability? How is the applicant's public relations ability?...

This can also be seen as a unique characteristic of society's demands on the 1994 graduates. [passage omitted]

It is worth noting that stability has become the criterion used by many graduates this year in weighing their choices for a profession and for a work unit. In the work assignments for graduates this year, research units, institutes of higher education, financial and taxation ministries, industrial and commercial ministries, and medium and large sized state-owned enterprises have become the highly sought after places. In contrast, inquiries have not been numerous for the joint ventures or solely foreign owned enterprises which are characterized by higher salaries.

It is gratifying that some graduates demonstrate clearly good reasoning in considering their assignment choices and show a strong interest in their hometowns so familiar to them. They finally choose to return to the hometowns which raised them. [passage omitted]

There's no denying that the final goal selected by a substantial number of university graduates this year is still the area with the highest economic efficiency - the South.

By looking at the paths of the 1,058 graduates of Nankai University of 1993, it can be seen that over 100 of them went to the southern provinces of Guangdong, Jiangsu, and Zhejiang. One must be aware that there are very few students from Guangdong at Nankai University and students from Jiangsu and Zhejiang are also unusual. Almost all of the students who went to the South to work were not from Guangdong, Jiangsu or Zhejiang. Language barriers and differences in customs and habits did not impact upon their determination to go South.

Looking at the paths of this year's graduates, it can be seen that some of the graduates of key institutes of higher education in the North still tend to want to go South. They are not seeking stability but efficiency in a place which will better able them to manifest their self-worth. A student who chose to go to the Dongwan Construction Bank put it like this, "as we graduates see it, economic development in the North does not even approach that of the South." Efficiency is not good and the utilization of talent is not at all rational. Some units even suppress talent. Management techniques are not at all scientific.

How can we be allowed to go there confidently to manifest our self-worth? Then you look at some units from the South, like the Dongwan Construction Bank which I chose. When they come to the school to recruit people, they announce clearly that salaries will start at 1,000 yuan at the lowest and will be increased each year. They have a high degree of transparency, unlike many units from the North which are always hush-hush about salaries or don't even discuss them at all, letting people have unrealistic ideas. Even though we know that salaries and the cost of living are high in the South, the higher efficiency in salaries still holds a relatively strong attraction for us.

In the assignment of graduates each year, female students always face difficult problems. They are more hard to assign than male students. As talent enters the marketplace, units hiring personnel become even choosier. Although people say that there is no difference in the work of males and females, females actually fall far short of males in work assignments.

In the talent market, many female students often become attached to outstanding male students and spend much effort to persuade the hiring units. An average male student can choose his work unit freely. Very capable female students have a difficult time finding work in the marketplace. The reason is simple: Female students are not wanted. A Miss Li of the history department at a certain university said, "Graduating and getting an assignment was not only a major turn in the path of life for me, it also caused a great shift in my personality. In the space of a very short time, I came to understand the hardship of being female...." When Miss Li was at school she was always a leader in her department and received scholarship awards several times. She originally assumed that she had more than adequate assets to find appropriate work, but recently she has met with many unexpected frustrations, all because she is female. After several frustrations, Li heard the news that a certain department in the university wanted to hire a graduate to stay in the university. She went to try her luck and discovered that all the applicants ahead of her were female. She immediately felt relieved, assuming that, without the male students who always had the advantage, she might have a chance. All of the procedures including the preliminary test, repeat test, written test, and oral test were done methodically in the proper order and Li made it through. In the end, however, it did not work out. The reason was that all the applicants were female. Finally, with the help of several others, after many different approaches, Li was retained by another department in the university to do administrative work, but her experiences took her formerly proud female self-esteem down a few notches.

A teacher who had once been the chairman of a university department said that the department always kept a few students out of each year's graduating class seeking assignments. At the departmental work meeting, I said that we could hire both male students and female students, but privately I told the counselors for each major

that when choosing students to hire for the school, they should consider male students first, and consider female student only when there were no better choices.

It is not difficult to discover that now many third year, second year, or even first year students are entering the talent market early to try out professions, test the winds, and show their abilities. The two-way selection model of the assignments process has reminded them that if one wants to be favored in society, one must have real abilities, and the more the better. One can't have too many skills.

Supplementary courses (upper electives) used to be a topic to be avoided on campus, but now they are very popular. Most of the students choose practical disciplines for supplementary courses, such as modern secretarial skills, public relations, business management, foreign language, computers and management, office automation, science and technology trade, and law. A student majoring in accounting in the economics department at a certain university said, "Although my major is very popular right now, I must also learn a few other things." Hence, I have added courses in computers and management. Using his explanation, it will be useful in the future to learn additional knowledge now, to prevent calamities in the future.

As the fad for supplementary courses emerged, the institutes of higher education also experienced a new wave of enthusiasm for acquiring learning. The signs indicate that this trend will be much bigger than last year's fad for "students to jump into the economy and do business." All of the seats in the library at Beijing University are full every night until closing. Early in the morning before the library opens, students at China People's University stand outside the door waiting with heavy book bags on their shoulders and lunchboxes in their hands. [passage omitted]

Psychological Causes of Corruption

94CM0365B Shanghai SHEHUI [SOCIETY] in Chinese
No 114, Jul 94 p 25

[Article by Zhou Lisong (0719 3810 2646): "The Social Psychological Imbalance Disorders of Corruption"]

[FBIS Translated Excerpt] [passage omitted]

The Contradictory Psychology of Corruption: "Smells Bad But Tastes Good"

It is an unavoidable fact that when unhealthy tendencies in society and various types of passive corruption are mentioned, everyone grimaces in disdain, fearing only that the punishment is inadequate for those who disregard party regulations and national laws and behave recklessly. But not everyone can hold fast to their original intentions and resist steadfastly when the back door of irregular practices opens for them. More people resist and give in at the same time, even finding various reasons to absolve other transgressors like themselves

from blame. What is more, they may despise this but when they smell that stinky bean curd for themselves, they not only are not ashamed but feel that it is all justified. In fact it would be unreasonable to not participate a little.

The Opportunist Psychology of "If You have Power Use It, If It Is Too Late, It Is Wasted"

This type of psychology at first only existed in ill intentioned cadres with poor moral character. Now it has spread to many professions in society. If one's job involves control over other people to a certain degree, then some people use the advantages of this profession or job as power to block others. If it can be used, then use it right away. Use every means possible to expand that bit of power. Those in charge of money use that money to rake in more money. Those who supply electricity become "electricity tigers." Even some schools famous for having no funds and no connections have now become "powers." If you or your children want to enter their doors, a feeling of being controlled by power will keep you from eating or sleeping comfortably. Today it's a fund-raising. Tomorrow it's another fee. For the sake of your own self-improvement or the next generation's education, you can only comply completely with this power. There is absolutely no room for negotiation. The so-called professional unhealthy practices trend actually is the opportunistic "if you have power use it; if it is too late it will be wasted" psychology making mischief in certain professions. It is the conscious or unconscious model motivating the unhealthy behavior of some cadres using power for personal gain.

The Vain Psychology of Social Climbing and Consumer Competition

Out of shallow self-respect, those with money spend it like water. They see glory in having money and knowing how to spend it. Those without money or with little money feel trapped. To conceal their impecuniousness, they try every scheme to appear prosperous and adopt the habits of leading the way in consumption and unbalanced consumption. The results of social climbing and consumer competition are that some people with high consumer desires but low actual income have more and more discord in their minds. Some bold individuals use devious means, even committing crimes. The many actual current cases are confirmation of this type of pathological psychology.

The Impetuous Psychology of Eagerness for Instant Success

This is a popular social illness worthy of concern. The symptoms are manifested in short-term behavior in every arena of social life. People see the pursuit of the tangible things in front of them as the best method, the most sensible move. To satisfy a temporary need, they can use unscrupulous means, with no consideration to consequences, to pursue vigorously the fastest and greatest efficiency in the short-term. With this type of

psychology, some people follow the philosophy of "a bird in the hand is better than ten in the bush" and grab what they can as quickly as possible. If there is something they see which they can get, they definitely will not wait for the future. All thoughts of long-term ideals or the pursuit of lofty spiritual realms are relegated to the backs of their minds.

The Bitter Psychology of Seeing Everything as Wrong

The unfairness of society, the prevailing tendencies of unhealthy attitudes in the work place. People see the growth and spread of corruption in the professions, and

these are hard facts which everyone sees, hear, and has experienced personally. The correct attitude towards this is to see the seriousness of these negative aspects, but also to see the mainstream of real life. By doing so, one will see that the vast majority of people belong to the positive side. Those who look upon everything with disfavor are filled with pent-up anger. The experience of these negative moods causes their judgement to weaken. The sinister attitude they have are getting worse, and their world seems to offer no future. Therefore, consciously or unconsciously, they forgive certain abnormal behavior, or irrational or even illegal action of their own.

Profile of C801 and C101 Ship-to-Ship Missiles
94CM0375A Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 4, 15 Jul 94 pp 17-19

[Article by Zong He (1350 0735): "China's 'Flying Fish' Play Hero's Role"]

[FBIS Translated Excerpt] [passage omitted] China's Super-"Exocet"

In the realm of ship-to-ship missiles, France's "Exocet" is renowned throughout the world. During the 1982 Malvinas Islands War between the United Kingdom and Argentina, Argentina sank a modern British destroyer, HMS Sheffield, with a single Exocet Am-39 air-to-ship missile. Another Exocet MM-398 sub-sonic short-range sea-skimming ship-to-ship missile damaged a cruiser, the HMS Glamorgan. This made the "Exocet" famous throughout the world.

On 9 April 1993, the vast Pacific Ocean resounded with a deafening explosion. Immediately, a small missile left a warship's launch platform to hit the center of a target ship 32 km away. It completely destroyed the target ship's superstructure, and demolished four and toppled two of the six on-board reflectors. This missile was a Chinese-researched and developed "Exocet," the C801 ultra-low altitude multi-purpose anti-ship missile.

Research and development of the C801 multipurpose anti-ship missile began in the mid-1970s. Borrowing from foreign missiles of the same kind, after more than a decade of effort using resources available in China, our aerodynamic missile experts finally developed the C801 ship-to-ship missile. This missile is similar to and its performance is better than that of France's "Exocet." In 1979, this missile was successfully test flown for the first time. Numerous range tests followed to solve one after another the C801s various key technical problems.

Dynamic armor piercing tests showed the C801 able to penetrate thick reinforced steel plate, while France's "Exocet" can penetrate only 10-mm thick steel plate. The C801's anti-electronic jamming capability and target hitting precision is also superior to the "Exocet's." The C801 also has numerous tactical technical capabilities that rival those of the "Exocet," and the cost of each missile is only one-fifth that of the Exocet. Therefore, one might say that the C801 is more awesome than the "Exocet."

During the fall of 1985, the second design finalization testing of the C801 was conducted in a certain gulf. Visibility was good at that time. Both the first and second C801 missiles scored direct hits on their targets. The third missile, which carried a live warhead, struck a decommissioned frigate. When the "launch" command was given, the C801 rose from a fast attack craft and climbed rapidly with a roar and trailing a long tongue of flame. The booster separated normally, and the missile converted smoothly to ultra-low altitude sea-skimming flight. Off in the distance, it looked like a sea gull

speeding among the crests and troughs of the waves. The missile climbed a second time then accurately dove to the target.

A red flash, then thick, billowing smoke and roaring flames followed instantly and were magnificently reflected by the blue sky and the azure sea. The huge fire burned for 12 hours. The incinerated target ship sank while being towed.

This sub-sonic, ultra-low altitude sea-skimming, multi-purpose anti-ship missile may be mounted on all classes of destroyers, frigates, conventional submarines, and fast attack craft. It can also be installed on bombers and attack aircraft for aerial launch. It is used mostly to attack medium-sized or larger surface craft such as attack frigates and destroyers. It can also attack small surface craft such as fast attack craft. Just one hit with the missile can severely damage or destroy a target.

The C801 missile is composed of a projectile, a solid state rocket booster, a solid state rocket main engine, a terminal phase guidance radar, and a warhead. The warhead weighs 165 kg. The ship-to-ship missile has a range of 8 to 40 km, and the air-to-ship missile has a range of 10 to 50 km. The missile's level flight altitude is 20 to 30 m. The level flight speed is Mach 0.9. Missile reliability is 85 percent, the hit probability is 90 percent, and a single missile hit can seriously damage or disable a 3,000-ton destroyer. The missile combines on-board guidance with homing. Missiles may be launched singly or in clusters.

The C801 missile has an overall weight of 815 kg, is 5.814 m long, and is powered by a two-stage solid state rocket engine. It is easy to use and maintain. Its on-board terminal guidance radar employs a monopulse system that has good anti-jamming properties. The missile employs a high precision radio altimeter that permits it to cruise at wave-top altitude, making detection difficult. Thus, it has strong ability to attack stealthily and penetrate defenses. It uses a semi-armor piercing explosive warhead that explodes with extreme force inside a ship after penetrating its side.

The C801 missile is controlled by a shipboard fire control system. After launch, its solid state rocket booster goes into operation. Several seconds later, the booster falls away, and the missile cruises at a speed of 0.9 Mach. During this time, the solid stage rocket main engine is working, and the missile begins to cruise at constant speed just above the sea. Its on-board flight control instruments permit the missile to fly on a pre-set course for a certain distance. Later, the missile's terminal guidance radar locks on and tracks the target, the missile heading toward the target in powered flight. As it approaches the target, the missile makes a diving attack and hits the target close to the water line.

New Generation Anti-Ship "Club" [dawan - 1129 5184]

Since the 1980s, in order to increase the offensive strength of their anti-ship missiles, western nations have

been working on the development of a fourth generation new type anti-ship missile—the sea-skimming ultra-sonic cruise missile. China has also come out with the C101 new generation anti-ship missile.

The C101 missile is an ultra-low altitude, supersonic tactical anti-ship missile that China has researched and developed by itself. Ship-to-ship and air-to-ship models exist. It is used for attacks against large and medium-sized targets such as destroyers and larger ships. It has a strong defense penetration capability and a high hit probability. It is safe, dependable, and easy to use. An advanced weapon of the 1990s, it may be "fired and forgotten." Its ability to cruise at supersonic speed just above the sea is its main feature.

The missile's weapons system consists of a guidance and on-board fire control system, a power plant, and ground equipment. System equipment is simple; the missile is small in size and light in weight, is very powerful, and can be launched rapidly.

The C101 employs a liquid state ramjet engine as its main power supply and a solid state rocket engine as a booster. The procedure for using this missile in combat is as follows: After the shipboard missile attack radar discovers an enemy ship, targets are identified and chosen for attack. After tracking the targets, the radar automatically calculates target parameters and feeds them to the missile director in real time. The director determines firing data and sets the missile's combat parameters and commands. It conducts a pre-launch check of the missile and controls the missile launch (a single missile or a cluster of missiles). After launch, the missile climbs to 200 m according to a predetermined sequence after which it glides down to level flight at an altitude of 50 m. During this process, the solid state booster ignites to accelerate the missile to a speed of Mach 1.8. Then it falls away. The liquid ramjet engine

starts, accelerating the missile to a level cruise speed of Mach 2.0. At a distance of 3,000 m from the target, the missile's terminal guidance radar issues a dive command. The radio altimeter controls the missile's descent to an altitude of 5 m to strike the target. At the time of impact on the target, the fuze ignites the warhead, which then hits the target close to the water line.

The penetration capability of the C101 ship-to-ship missile is exhibited in its ability to fly just above the sea on a low trajectory. From the time that it begins to cruise until it hits the target, this missile maintains a supersonic flight speed of Mach 2.0. This is another important reason for its high penetration capability. Since it uses monopulse supersonic sea-skimming flight, its anti-jamming capability is very strong.

Its precision control and guidance systems, as well as its supersonic speed high performance semi-armor-piercing explosive warhead and its time delay contact fuze give the C101 missile fairly high hit and destruction probabilities. It struck targets at the water line in many flights. Its warhead weighs 300 kgs, which is more than those of foreign missiles of the same type. A single hit can sink or seriously damage surface craft such as destroyers.

The missile's entire flight process is directed by the missile itself: During the self-control stage, its flight is controlled by the missile control system. During the self-guidance stage, its terminal stage guidance radar tracks automatically. Therefore, once a missile is launched from a ship, the ship can turn back or address other tasks.

Flight testing shows the C101 ship-to-ship missile to be at the fourth generation anti-ship guided missile level of the 1990s. Current contact weapons such as France's "sea sidewinder" and the United Kingdom's "Sea Wolf" interceptor missiles and naval guns are virtually ineffective in intercepting the C101.

East Region

Characteristics of Shanghai's Floating Population

94CM0387A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 8, 15 Aug 94 pp 59-62, 37

[Article by Xiang Weimin (7309 0251 3046) of the Zhabei District People's Government in Shanghai Municipality : "Characteristics and Management of Shanghai's Floating Population"]

[FBIS Translated Text]

I

Since the introduction of the reform and opening-up program, particularly after the CPC Central Committee and the State Council made the policy decision of developing and opening up the Pudong Area in Shanghai, more and more migrants have poured into Shanghai. According to a sampling survey, the floating population in Shanghai has now reached as many as 3.3 million, of which about 2.5 million people engage in various types of production and business activities and they are expected to stay in Shanghai relatively longer, while 800,000 people are "transients" who often come and go. It is expected that from now on the floating population of migrants will continue to grow in the city.

The continuous increase of the floating population of migrants is one of the major characteristics of Shanghai as a large economically developed coastal city. The fact that the floating population, particularly those migrants with managerial expertise in the field of science and technology who engage in various production and business activities and the large number of migrants who are working in the fields of industry, agriculture and commerce, plays a significant role in promoting Shanghai's economic development, urban construction and business prosperity should be considered a positive factor. Henceforth, in order to build itself into an international economic, financial and trade center and play the role of a "dragon head" in developing the economy in the Yangtze River Basin, Shanghai cannot achieve its goals without the participation and support of its floating population. Moreover, this kind of participation and support will become even more intensified, and there will be more participants, and the fields they participate in will be wider and wider. This is an inevitable trend of a cosmopolitan city such as Shanghai in the course of developing its economy.

The continuous growth of the floating population has created many serious problems in urban administration, social security and labor production. The first problem is the increased pressure on communications and transportation. The influx of the large number of migrants has added a tremendous pressure on Shanghai's railways, waterways and long-distance bus transportation and choked the already jammed inter-city traffic as if fuel is added to the flames. Around the Spring Festival when

transportation reaches its peak, a large number of civilian workers are either returning to their native places to spend their Spring Festival with their families or returning to Shanghai to work. In addition, groups of rural surplus laborers blindly rush into Shanghai to look for jobs. They have made Shanghai's river and land transportation "super-saturated," created an once-a-year flood of migrants and exerted a tremendous pressure on the department of communications and transportation. The second problem is its impact on social stability. A considerably large number of migrants are prone to violating laws and committing crimes, because their educational standards are low and their legal concept is relatively weak. In addition, not enough efforts have been made to educate and control them. Some of them are originally criminals fleeing hither and thither or suspects listed as wanted. In 1992, criminals in Shanghai who are migrants in the floating population accounted for 43 percent of law-breakers who are outsiders, and they were involved in 44.1 percent of the major crimes. In Shanghai's Zhabei District where more migrants live, they are involved in 63.4 percent of the cases concerning public security and they accounted for 56.9 percent of the total number of law-breakers. The number of law violators and criminals who are migrants and the number of crimes they commit are growing in each year since 1993. They seriously affect Shanghai's public security and social stability. The third problem is its impact on the city's appearance and sanitation as well as the program for planned parenthood. Generally speaking, people who come to work as farmers and peddlers know little about sanitation and lack of good hygienic habits. Wherever they go, they often dump trash any place or spit and relieve themselves at will, seriously affecting the city's appearance and environmental hygiene. Many migrants who work in meat or soybean processing plants and for catering services have neither sanitary and health certificates nor business licenses. The hygienic conditions where food is being processed are extremely poor, and the foodstuffs have often gone bad or become mildewed and rotten. This situation has seriously harmed the masses. The large number of migrants who come to Shanghai to look for jobs usually have little cash on hand, and they often carry their luggage and bring their children along with them. In the daytime, they beg for food and sleep in street corners at night, imposing a bad influence on the city. In recent years, there are more and more "guerilla troops who have more children outside the state plan" in the floating population, exerting tremendous pressure on Shanghai's program for planned parenthood.

II

Since the continuous growth of the floating population is inevitable and such population has also wielded both positive as well as negative impact on Shanghai, we must therefore earnestly study the basic characteristics of the floating population and know some laws governing such population in order to lay a theoretical foundation for the control of this population.

The first is the geographical characteristics of the floating population. Shanghai became a city quite late. Due to the development of the colonial and semi-colonial economy, Shanghai has a tradition of "all merchants drawing together like clouds." Due to limited means of communications, relatively more people from Jiangsu, Zhejiang and Anhui came to Shanghai, while there were less people coming from other provinces. This geographical characteristics had lasted for a quite longer period. With the development of the reform and opening-up program and the continuous improvement of conditions in communications since the 3d Plenary Session of the 11th CPC Central Committee, migrants in Shanghai are more diversified in terms of their native places. In spite of the fact that the majority of them still come from Jiangsu, Zhejiang and Anhui, more and more people are now coming from Jiangxi, Henan, Sichuan, Hunan and other provinces and cities. There are also people coming from Yunnan, Guizhou, Xinjiang and other provinces and regions in China's border regions. Such migrants are diversified in the choice of jobs, style of life, habits and human relations on the basis of the characteristics of their particular nationality. What particularly merits our attention is that in order to protect their own legitimate and illicit interests, some of the migrants hoist high the banners of the same village, same clan and same province to form small groups and gangs just like the secret societies in the old days. In order to spread their influence, dominate the market and resist the actions taken by the public security department, some law-breakers and criminals have formed criminal gangs with persons from the same village, town or province as the main elements. In the floating population, the number of national minority migrants is also on the rise. We must earnestly study all these new characteristics and situations and adopt appropriate counter-measures to control and strike at the law-breakers and criminals among the migrants.

The second is the qualitative characteristics of the floating population. The main goal of those migrants who come to Shanghai to work as factory workers or peasants or engage in business is to make money and increase their income to improve their and their family members' living conditions. Therefore, the overwhelming majority of them do not come from relatively affluent cities and rural districts. They usually come from comparatively poor rural areas. These peasants who come swarming to Shanghai have the following special features:

1. They are able to work hard, withstand hardship and lead an austere life. They are mainly middle-aged and young people, and most of them are single.
2. They are low in education and weak in legal concept. A considerably large number of them are illiterate and law-ignorant. They basically do not learn legal affairs and know nothing about law. Since they come from places where legal education is unpopular and they have received no or little education, they do not consciously

abide by the state laws and regulations. Nor are they able to use the legal weapon to protect their legitimate rights and interests.

3. They pay little attention to hygiene, while they have more bad customs and habits. They attach no importance to individual hygiene, dietetic hygiene, environmental hygiene and public health. Therefore, they often harm their own health as well as others and undermine the urban environmental sanitation.

4. They are relatively strong in feudal and patriarchal concepts, narrow-minded and conservative. On the one hand, they only care about their own gains and losses and their individual interests, but show no consideration for the public interests and the society. On the other hand, they often step forward bravely for the interests of those from the same town or the same clan even to the point of violating the law and committing crimes.

The third is the vocational characteristics. Among the migrants in Shanghai, some of them are managerial and technical personnel. They are either: cadres and staff members who have retired, resigned or been temporarily transferred to work in undertakings and institutions in Shanghai; those who make use of holidays or vacations to take a second job on a part-time basis in Shanghai; or staff members of the institutions, enterprises and units in other localities working for their respective branches or offices in Shanghai. Some of them make investments themselves or cooperate with others to open up companies or factories in Shanghai as joint ventures.

However, there are only a handful of people of this category in Shanghai's floating population. The overwhelming majority of them mainly perform physical labor as workers, peasants or businessmen. A relatively large number of them are building houses or developing urban construction projects, or working for state, township or neighborhood factories and enterprises or as street cleaners for the sanitation department. Some of them become peddlers, or set up stalls or open stores to sell farm and sideline products or process foodstuffs, while others work in individual families as full-time or part-time housekeepers or buy waste and old material. What merits our attention is the fact that some migrants engage in manufacturing and peddling sham and shoddy products, illegally sell all kinds of tickets, illicitly engrave seals and stamps, tell people their fortune or practice physiognomy, collect scraps or beg from door to door, solicit or entertain guests, sell drugs or take bets, provide prostitutes, and engage in other shady professions and carry out other criminal activities. A job analysis over the great majority of the migrants from various localities outside Shanghai shows that most of them are working in labor-intensive jobs. They usually work longer hours in places where working conditions are relative poor. They have to accept dirty jobs and work harder. Therefore, the units concerned must pay full attention to measures on how to strengthen labor protection, improve emigrants' labor conditions, increase their pay and protect their legal rights and interests.

Right now, the floating population is basically divided into two categories in the form of labor organization. One category is labor in an organized form. Migrants of this category work in factories, enterprises and companies for housing and urban construction projects for which more outside laborers are working. The other category is labor in an unorganized and sporadic form such as those who work as farmers, businessmen, restaurant attendants, servicemen, peddlers and vendors and housekeepers. We must adopt different measures in dealing with migrants of the particular category in the form of labor organization.

III

The sharp growth of the floating population in Shanghai has already become an irreversible trend. We must keep pace with this trend, analyze and study its intrinsic characteristics and distinguishing features, know well the objective laws, adopt effective counter-measures and earnestly carry out our work to control the floating population.

The basic purpose to carry out our work to control the floating population is to bring into full play the active and progressive role of this population, try our best to inhibit its negative and unprogressive factors and do a good job in giving full play to its role in developing the material civilization and spiritual civilization of socialism. In recent years, the party and government leadership and various relevant departments in Shanghai have regarded the task of strengthening the control of the floating population as an important item on their daily agenda. In addition to its laws and regulations on the control of migrants, the Shanghai Municipal Government had enacted and promulgated in 1993 two regulatory documents—the "Interim Provisions for the Control of Migrant Labor Forces Used and Employed by Units in Shanghai Municipality" and the "Interim Provisions for the Control of Blue-Seal Residential Registration"—and put these provisions into effect on 1 February 1994. This has laid a good foundation for further controlling the floating population and carrying out such work systematically and in a normal and scientific way. Our experience in the past several years showed that the general principle for the control of the floating population of migrants is to combine our efforts to harness the tide of migrants with those to discourage them from blindly rushing to urban areas with emphasis on the former. Specific measures for the control of floating population should be improved in the following six aspects:

1. Legal control. In controlling the floating population of migrants, it is necessary to follow the rule by law and gradually make sure that there are laws to follow, that these laws are observed, that their enforcement is strict and that law breakers are dealt with. In the past, a series of laws and decrees on the control of migrants from other localities were formulated and promulgated. However, they were enacted relatively earlier. Therefore, they are

unable to keep pace with the current situation. It badly needs the people's congresses and governments at various levels to revise and supplement the original laws and decrees in accordance with the new situation, and lay down and promulgate some new laws and regulations. The two new interim provisions have played a significant role in strengthening the control of the floating population, particularly the control of the outsiders who are recruited and employed by the various units in Shanghai. Most of the units in Shanghai agree with and a large number of outsiders welcome these two provisions. During the Spring Festival in 1994, the Bureau of Public Security, the Bureau of Civil Affairs, the Bureau of Labor, the Bureau of Communications and Transportation and the Bureau of Railways in Shanghai, led by the Shanghai Municipal Committee for the Comprehensive Improvement of Public Security, had issued a joint public notice calling on people outside of Shanghai not to blindly come to the municipality to look for jobs and urging those migrants already in Shanghai to observe Shanghai's rules and regulations on communication, public security and sanitation and to keep the city clean. This joint public notice had a positive impact on harnessing the "tide of migrants" and maintaining social stability. From this, it can be seen that to enact relevant laws and regulations is a task of fundamental nature. It will ensure the various units concerned and the law enforcement department that there are laws to follow in this connection. The pressing task at present is to lay down a national law of a comprehensive nature for the control of the floating population so that we can use this law to set up the basic guideline and policy on the flow of population in various provinces, municipalities and autonomous regions in China and to coordinate efforts all over the country as in a game of chess for the control of the floating population. This law can also be used to coordinate the work in places where people emigrate from and the work in places where people emigrate to. It will not only invigorate the economy in various localities, but also protect the legitimate rights and interests of the outsiders. It is conducive not only to establishing and improving the labor markets in various places but also to strengthening the necessary overall control of the floating population. It not only promotes the economic development, but also helps maintain social stability in various localities.

2. Residential registration control. The residential registration control is the foundation for the control of migrants. According to the regulation, all migrants who have resided in Shanghai more than three days must go to the local police station to register themselves as transient residents and receive permits as temporary residents. Organically assigned units where migrants work must submit a report of collective residential registration for the migrants they have recruited and hired. In addition, transients who pass through Shanghai sightseeing, receiving medical treatments or temporarily performing official duties and live in guest houses, hotels and hostels must register them as temporary residents

according to regulation. However, there are many loopholes in this respect right now. There is a large gap between the number of transients registered and the actual number of the floating population. This has made the base number of the floating population unclear, prevented the departments concerned from doing their work of controlling such population efficiently and given law-breakers and criminals the opportunity to carry out their illicit activities. The fundamental measure to solve this problem is to strengthen the work of the local police stations in the control of residential registration. While continuing to do a good job in having the permanent residents of Shanghai properly registered for their residence, they must insure that all the transients are also properly registered in one's own jurisdiction and that such transients register and deregister themselves timely, accurately and in a scientific way. A responsibility system must be introduced in registering the guests living in guest houses, hotels and hostels. Check-ups must be conducted and supervision be given over such guest houses, hotels and hostels where more transients live. Work must be strengthened to accommodate and repatriate those who blindly come to Shanghai to look for jobs and end up in begging from door to door and collecting scraps, and to dismantle the temporary shelters which they have illegally put up. In short, it is necessary to have more transients registered, compile a complete data on them, clearly understand the situation and ascertain the base number of the floating population.

3. Labor control. The social activities of migrants in Shanghai are mainly in production. Therefore, the major task in the control of the floating population is to bring into full play the migrants' enthusiasm in productive labor in the primary, secondary and tertiary industries in which they work and help them make even great contributions to developing the material civilization and the spiritual civilization in Shanghai. In labor control, we must pay attention to the following three tasks:

(A) We must establish and improve, as soon as possible, the labor markets at all levels in accordance with the "Interim Provisions on the Control of Migrant Labor Forces Used and Hired by Units in Shanghai Municipality"; list the work of hiring the outside labor forces into the market management system in a planned and organized way; help the district into which migrants flow gradually obtain the outside manpower it needs in a normal and balanced manner; and forestall the "tide of migrants" which swells after the Spring Festival every year.

(B) Units which hire the labor forces must scientifically and rationally make good use of the migrants, train them to understand laws and regulations and learn about production techniques and safety, provide them with the necessary production and living conditions and carry out the work well in handling migrants according to law. Right now, particular efforts must be made to strengthen labor protection for migrants, insure safe production,

strictly ban the hiring of child laborers and concern ourselves over migrants' living standards and health conditions.

(C) Departments of industry and commerce, public security, civil affairs, public health and taxation must strengthen their control over those self-employed migrants who transport goods for sale, peddle farm and sideline products, process foodstuff and buy waste and used articles. They must strictly enforce the laws and regulations in this connection and insure that migrants who belong to this category do business and pay taxes according to law and become well-to-do by working hard.

4. Security control. Security control must be carried out in close connection with the residential registration control and the labor control. At the very beginning, it is necessary to fully understand the family, social, ideological and political background of the migrants and clear away the law-breakers and criminals among them. In dealing with the overwhelming majority of the outsiders, it is essential to strengthen security control by combining prevention and the adoption of strong measures against them with emphasis on prevention. It is for this purpose that we must coordinate with the judicial and propaganda departments to strengthen the legal education among the outsiders and help them know more about and abide by laws. Our experience shows that the work of maintaining security control over the migrants from outside should be a part of the program to improve all facets of public security in society. All units which hire migrants, private housing lessors and various guest houses, hotels and hostels must sign a letter of security responsibility to hold themselves responsible for those who stay there. Various units concerned must establish and improve all types of security departments in order to strengthen their internal administration. All districts and units where there are more migrants must reinforce their security and guard systems and deploy enough staff members to improve all facets of public security.

5. Social control. Social control is aimed at controlling all migrants who carry out their activities on the streets, squares, piers and other public places in society. To exercise control over migrants of this category has always been an important aspect of the overall control of the floating population for the past several years. It is relatively difficult to control migrants of this category, because most of them have no regular jobs. They are scattered all over the city and on the move at all times. Many of them have no permanent residence. Nor do they have a fixed income. The public security department should play the primary role in controlling them, while the departments of industry and commerce, of municipal administration and of civil affairs must closely coordinate with the local neighborhood committees and units to rigorously and persistently control them by adopting measures of combining education with prevention, sheltering with repatriation and punishment with the adoption of strong measures against them. Those

who engage in selling farm and sideline products or small commodities without a business license should be educated and asked to apply for a license and legally run their businesses. Meanwhile, they must be educated to abide by the city's rules and regulations on traffic control, sanitation and taxation. They should be prohibited from doing their businesses if they disregard repeated exhortation and persist in their old ways of doing things. We should resolutely prohibit migrants from soliciting and cheating customers, illegally peddling all kinds of tickets, selling sham and shoddy merchandise and carrying out unlawful activities; and deal them with telling blows. As for those migrants who become vagabonds begging from house to house or feigning ignorance, we should provide them with shelters on time and repatriate them back to their native places so that the local government there may organize them to do productive labor. Right now, the control of migrants of this category is still ineffective. The main reason is that the relevant laws and regulations are imperfect. The law-enforcement departments lack of the legal basis in handling such migrants. There is a serious shortage of manpower, sites and funds in enforcing laws and accommodating such migrants.

The department concerned must study how to solve these problems as soon as possible.

6. Service control. In dealing with the overwhelming majority of the floating population, we must base ourselves on how to fully arouse their enthusiasm in carrying out productive labor so that they would stay on their own posts to create more wealth for the society and make even greater contribution to developing the material civilization and the spiritual civilization in Shanghai. For this, we must improve our services to them, create better living and working conditions for them, protect their legitimate rights and interests and do a good job in strengthening our service control. Work in this connection has aroused more and more attention from the various departments concerned, particularly those units which hire more migrant workers and those districts where most of them live. However, generally speaking, the work of improving services to outsiders is still at the initial stage. We need to exert even greater efforts in exploring ways to make improvements in this connection.

(Editor responsible for this article: Yan Ping 6056 1627)

'Silent' Vice President Shows Temperamental Side
94CM0370B Taipei HSIN HSIN WEN [THE
JOURNALIST] in Chinese No 383, 16 Jul 94 pp 16-19

[Article by Huang Kuang-chin (7806 0342 5367):
"'Silent' Vice President Begins Speaking for Himself"]

[FBIS Translated Excerpt] At one point during a meeting of the KMT central standing committee on 29 June, party chairman Lee Teng-hui [2621 4098 6540] stood up and cut short the speech of a vice chairman. The emotional vice chairman then flew into a fit on the floor of the meeting room. Close your eyes and picture the scene. Regular observers of the goings-on in the central standing committee invariably assumed that the character involved must be Vice Chairman Hao Pai-tsun [6787 0130 2625]. It came as a total surprise to everybody that the person who was interrupted was Li Yuan-zu [2621 0337 4662], whom Lee Teng-hui himself had characterized as "silent."

Li Yuan-zu has the temper of a real Hunan donkey, pure and simple, as people who have attended meetings with him all know. If something needs to be said, he would say it. Never mind whether or not the vice president opens his mouth within the Office of the President, what is known for a fact is that once he gets worked up in a central standing committee meeting, he behaves just like Hsu Li-nung [6079 2980 6593], who used to sit on that same committee. A party official who attends central standing committee meetings revealed that not only is Li Yuan-zu not silent, but he often engages himself in heated exchanges. Even before the 29 June incident when he blew up over a questionnaire prepared by the party-government relations committee under the policy committee, he had criticized the POLITICAL SCENE WEEKLY put out by the policy committee. The only difference is that this time around not only did Lee Teng-hui hasten to change the subject, but Secretary General Hsu Shui-teh [6079 3055 1795] also quickly acted to smooth things over by ordering staffers to remove the questionnaire immediately.

Li Yuan-zu fired the first shot, "How could you include questions like 'Is the KMT an alien political party?' in the public opinion survey? Of course the KMT is a native party. Why, do you think it came from the United States?" He also asked, "Question 14: Among Democratic Progressive Party [DPP] members, who have performed satisfactorily? a: heads of ministries and commissions; b: legislators; c... Who among our ministry and commission heads belongs to the DPP? How could they put out such a questionnaire?" Before he finished speaking, Director Cheng Feng-shih [6774 6646 2514] of the party-government relations work committee, which prepared the questionnaire, raised his hand, looking for an opportunity to explain. At that point Lee Teng-hui got up from his seat and started talking to Li Yuan-zu to calm him down, at the same time half listening to him. Both men raised their voices. Lee Teng-hui then ordered, "Keep the report of the party-government relations work

committee for future reference. The organization committee, cultural committee, and party-government relations work committee should continue to set up a special committee to obtain a better understanding of the policy." At that a subdued Li Yuan-zu took his seat.

What Li Yuan-zu called into question at the meeting was a technical issue relating to the preparation of a questionnaire. Why did Lee Teng-hui stop Cheng Feng-shih from explaining, at the same time cutting Li Yuan-zu off? Clearly he wanted to change the subject. Li Yuan-zu might have raised a mere technical issue, but he also asked the question, "Is the KMT an alien party?" Now that is a most sensitive topic. The two men seem to see eye to eye on this matter but there is actually a major difference. In an interview with Si Ma Liao Tai Long, a Japanese historian and novelist, a few months earlier, Lee Teng-hui, not mincing any words, said that the KMT is an alien regime and that he has always advocated that the KMT gradually become a native political party. Li Yuan-zu argues that the KMT has become a home-grown political party. But his question—"do you think the KMT came from the United States?"—shows that he refuses to consider the KMT a so-called alien party. This is a grey area between the two Li's that both men have shied away from over the years, the biggest blind spot during the last 7 years when they worked together in the Office of the President. It is also the most significant difference between Lee Teng-hui, a native Taiwanese, and Li Yuan-zu, who is from another province. Left alone, the grey area would remain a grey area, the blind spot will not be pricked open, and the gap will not be exposed. This has absolutely nothing to do with Lee Teng-hui's decision to put Li Yuan-zu in charge of the great three-stage undertaking of revising the Constitution, name him head of the seven-person nominating group, giving him a judicial role, and appoint him a member of the supervision committee and convener of the sixth judge-nominating and review group.

Some people may think it is premature to make a judgment on the relationship between the two men on the basis of one lone episode in which Li Yuan-zu lost his temper during a central standing committee meeting. However, if we are to believe the oral verifications and recounts of high-ranking figures in the Office of the President who are close to the "twin peaks," not only are the two men patently incompatible philosophically, but we can actually say they are totally at odds with each other.

To be more accurate, Lee Teng-hui and Li Yuan-zu may be philosophically incompatible, but there is no bad blood between them. Their incompatibility is different from that between Lee Teng-hui and Li Huan [2621 3562], or that between Lee Teng-hui and Hao Pai-tsun. In the latter two cases, incompatibility finally led to total estrangement, with the two people refusing to cooperate with, meet, or talk to each other. For over five years, the two Li's remained on good terms, there being constant communication upstairs, downstairs. The spoke the

same language to outsiders and cooperated in constitutional revision. Much of that could be attributed to a rare quality that Li Yuan-zu has, which is knowing one's place and being content with one's position. After Lee Teng-hui ascended to the presidency in 1988, he picked Li Yuan-zu to be secretary general, rescuing him from political disfavor. One reason for Lee Teng-hui's choice is that both Shen Chang-huan [3088 2490 3562] and Chang Tsu-yi [1728 4371 6095], his top aids at the time, often proved obstructionist in the drafting of official documents, in administrative affairs, and especially in diplomatic matters. Another reason is that back in the time when Lee Teng-hui served on the political committee during the Chiang Ching-kuo era, he was keenly aware of the "knowing-one-place's" quality of Li Yuan-zu, who was then chairman of the legal committee, and believed he could get along with the latter. This is why the two people managed to work together—Lee Teng-hui as vice president and the other as secretary general—for almost seven years.

Analyzing the differences between the two men, top-ranking officials in the Office of the President said that Li Yuan-zu is ultra-rightist and ultra-conservative in his thinking while Lee Teng-hui is a native, a Taiwanese from top to bottom. Li Yuan-zu has no social skills and prefers to spend his spare time watching video-tapes of mainland scenery at home. Not so Lee Teng-hui. He has the profound sense of melancholy that Taiwanese have. This is the biggest difference between the two. These are their roots. You cannot change either of them. That would be impossible.

Top-level figures in the Office of the President noted that the only way these two entirely different persons can coexist is for one to be a mute and the other a deaf person. Li Yuan-zu is not entirely silent, but in times of political strife and when Lee Teng-hui did not play by the rules of the game, he acted like a mute when the occasion called for it and sometimes even took the blame for Lee Teng-hui. Lee Teng-hui, for his part, understands Li Yuan-zu's fiery temper. When Li Yuan-zu twitched his nose and arched his brows, Lee Teng-hui simply feigned deafness and ignored his occasional outbursts. However, it is octogenarian Chiang Yen-shih [559 1750 1102], sources say, who finds himself in the most uncomfortable situation, squeezed as he is between a mute and a deaf person.

Li Yuan-zu has not been able to protect his boss the way Su Chih-cheng [5685 1807 6134] did, but he had a tough time too during the power struggle when he came under attack along with Lee Teng-hui. As one of a handful of non-Taiwanese swept into the vortex of the mainstream faction, he was branded as a member of the group. During the power struggle, the non-mainstream faction singled out Lee Teng-hui as its principal target along with the "two Songs and one Su" and was more sympathetic than hostile toward Li Yuan-zu. But his efforts to steer clear of the power struggle between Lee Teng-hui and Hao Pai-tsun time and again shows that he had his

hands tied and felt inhibited during the many years when he worked at Lee Teng-hui's side, in contrast to his days in the legal department and Ministry of Education where he threw tantrums and hurled papers at the drop of a hat, or to the times when he fell from political favor and retreated into the leisurely world of a university president. He has a pitifully small number of close friends, they could be counted on the fingers of one hand: Wang Ti-wu [3769 1912 0710], who owns LIANHE PAO, and Ni Po [0242 0590], national policy counselor, that's about it. It has been almost seven years. When Lee Teng-hui was plotting how to win the presidential election by popular vote, Li Yuan-zu's usefulness was diminished because of the imminent demise of the last appointed vice presidency. Slowly his inhibition melted away and his real personality began to emerge a little at a time. In the wake of the central standing committee incident on 29 June, Liang Su-jung [2733 5126 2051], a leader of the non-mainstream faction, said bluntly, "The mute finally spoke. How rare!" [passage omitted]

White Paper on Mainland Policy Criticized

94CM0370A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 383, 16 Jul 94 pp 28-29

[Article by Wang Yun-yi (3769 0061 1837): "White Paper on Mainland Policy Loaded With Diplomatic Talk"]

[FBIS Translated Excerpt] Is the white paper on mainland policy actually a white paper on foreign policy? After a year of consideration and drafting, the commission on mainland policy unveiled the much-anticipated white paper on the second day of its mainland work conference. Surprisingly this document, entitled "A Guide to Relations between the Two Sides of the Taiwan Strait," has encountered skepticism in all quarters. [passage omitted]

Chao Chun-shan [6392 2504 1472], deputy director of the Center for International Relations at Cheng-Chi University, said that the 10,000-character white paper fails to clearly state the issues in bi-strait relations now and in the future or to put forward solutions. What it does do, he said, is to devote more than half its space to criticizing the CPC's foolish attempt to deny Taiwan any room on the international stage. The document tries too hard to explain the ambiguous position in which Taiwan now finds itself in the world arena. The white paper gives readers the impression that it may have been cooked up by the Ministry of Foreign Affairs to advance its diplomatic work.

Of course there are many reasons why the mainland policy commission decided to release the white paper at this point in time. One of them was to coincide with the ministry's drive to be launched in September for a more active role in the United Nations. There is nothing wrong with that. But since this is billed as a "guide to relations between the two sides of the strait," it would

seem that it should present a comprehensive forward-looking strategy for solving problems between the two sides. But the white paper does not offer any fresh practical ideas for the transition from the first to the second stages as proposed in the National Unification Plan. Nor does it put forward visionary goals in bilateral relations after 1997, let alone suggesting countermeasures one can take in response to the chaos that may occur on the mainland any time after Deng Xiaoping dies. Even on the most practical economic issue—deepening inter-dependency between the two sides—the white paper has no balanced solution. While the white paper is silent on the many issues mentioned above, it goes to great lengths to explain the facts surrounding the split between the two sides and why they have separate governments. In other words, the white paper dwells at length on the split between the two sides, but fails to put forward solutions to mend the split. Chao Chun-shan described the white paper as an offensive move in diplomatic terms but said that it is on the defensive when it comes to handling bi-strait relations. It simply has nothing to offer that may help solve the problems in bilateral relations. Nor would it do much to further such relations. As he saw it, the white paper is just the right kind of material to be distributed by units stationed overseas. Who knows, it may even help clear up some of the many ambiguities foreigners have regarding the relations between the two sides of the Taiwan Strait.

A Boost to Diplomacy

Ironically Chao Chun-shan's thinking is in line with that at the Ministry of Foreign Affairs. According to ministry spokesman Leng Jo-shui [0397 5387 3055], the "guide to relations between the two sides of the Strait" was submitted to the ministry for review twice during the drafting process. About 99 percent of the ministry's comments were accepted by the commission on mainland policy. In fact several passages in the white paper were written in language used by the ministry. Take the expression "Sanmin Chuyi China, Communist China," for instance. Reportedly Fang Chin-yen [2075 6855 3508] was a big proponent of this concept. We can thus see that in drafting the white paper, the mainland policy commission took the ministry's opinions most seriously.

Leng Jo-shui believes that the white paper would prove highly effective in clarifying misconceptions on the part of the international community about the relations between the two sides of the strait and in advancing foreign relations. Because of the emphasis in the white paper on the split between the two and the fact that there are two separate governments, it will help Taiwan's diplomatic units carve out an international niche for the Republic of China as an independent sovereign nation. Referring to the stress on the concept of "one China and two co-equal political entities," Leng Jo-shui said the concept of co-equal political entities can be used only in bi-strait relations, but not diplomatically. The white paper may continue to regard the two sides as "co-equal political entities," but Leng Jo-shui suggests that the idea

of two independent sovereign nations both representing China has been clearly explained in the body of the document.

At the APEC earlier, Chiang Ping-kun [1203 0014 0981] talked about a "two-China policy at the present stage based on one China." When reporters asked Leng Jo-shui whether or not such a notion is implicit in the white paper, he laughed and said, "No comment." But then he went on to say that there is some similarity between Chiang Ping-kun's statement and the white paper, noting, however, that Chiang Ping-kun's words were an oversimplification and failed to convey the entire meaning. Leng Jo-shui also observed that when Chiang Ping-kun first made the remark in November last year, it was thought to represent some brand-new policy. Actually the concept had been around for a long time and the white paper does a good job explaining it. For this reason the Ministry of Foreign Affairs plans to send copies of the document to all units stationed overseas to be publicized around the world. [passage omitted]

Poll on Public Perception of Judicial Justice

94CM0360A Taipei TIENHSIA [COMMONWEALTH]
in Chinese No 158, 1 Jul 94 pp 26-33

[Article by Chiang Hsueh-ching (1203 7185 1758):
"When Bribery Holds Sway, Do Honest Officials Give Way?"]

[FBIS Translated Excerpt] [passage omitted] At a time when Taiwan medical practitioners are being attacked loudly by the public and the media for bribery and kickbacks, in the eyes of the public, the judiciary, which is deemed to be the "last bastion of social justice," has become seriously corrupted by bribes and kickbacks. A TIENHSIA survey shows that only 35 percent of people interviewed believe that bribery is not necessary to win a law suit. Even more astoundingly, nearly 40 percent believe that bribes and back door deals in law suits are "definitely useful," or "useful in most cases." If the number who feel that "they are useful in a minority of cases" is added in, the figure reaches 80 percent. In addition, more than 90 percent of those who have had experience with law suits feel that most Taiwan judges are subjected to outside pressure in deciding cases. They are not sufficiently independent.

"Taiwan lawsuits are a game that only the rich can afford to play," and "big officials violate the law with impunity, but ordinary citizens are severely punished for the slightest mistake," were extremely common remarks of those interviewed. One person interviewed even said agitatedly, "The judicial system is completely unjust; don't even mention the word 'confidence'."

Sociologists say that in most democratic countries, ideally there should be a 100 percent expectation that the judiciary is fair. When just 1 or 2 percent of the public loses confidence, that is cause for vigilance. However,

TIENHSIA's survey shows that among those interviewed in Taiwan, only 20 percent said they had confidence in the judiciary.

TIENHSIA's survey also showed that the better educated they were, the less confidence people had in the fairness of the judiciary, and the more they felt that it was necessary to give bribes, and more effective as well. Fifty-one percent of people having a primary school education who were interviewed felt it was not necessary to give a bribe in a law suit, but among those having a post-graduate education, only 11 percent felt bribery was not necessary.

The administration of justice is closely related to the people's daily lives. Unfortunately, the TIENHSIA survey showed that people who had experience with the justice system frequently had less confidence in Taiwan's judiciary as a result of that experience.

The percentage of the public having experience with litigation who expressed no faith in the administration of justice was 15 percent greater than those having no experience with litigation. The proportion who felt that bribery and back door deals are "definitely necessary" in a law suit was nearly double.

In fact, judging from the response of those interviewed who had experience with litigation, feelings among the Taiwan public about their experience with the law varied greatly. Only one-fourth of those interviewed felt that the presiding judge had a full understanding of the case; 50 percent felt the judge lacked sufficient understanding of the case.

Even more astoundingly, among those interviewed who had experience with a law suit, unexpectedly more than 90 percent felt that in the adjudication of the case, the judges were subjected to political or administrative pressures to one degree or another. About 60 percent of those interviewed even maintained that in deciding cases, "virtually all" judges "are subjected to interference," or "most are subjected to interference." One person in Taichung said sarcastically, "The law is only for reference. Its provisions are not necessarily carried out."

In addition to their suspicions about the sloppiness and the unfairness with which cases are handled, more than one-fourth of those interviewed who had experience with law suits were dissatisfied with the way judges conducted cases. This was a higher percentage than for those who were satisfied. A woman from Chia-i said unhappily: "The way they hear cases makes ordinary citizens feel afraid. They can't answer normally." One person was resentful about this saying, "They don't dare attack the privileged; they can only bully ordinary folk." [passage omitted]

Following the 1994 election for county and municipal assembly speakers, the Ministry of Justice arrests and suits for election bribery caused a powerful stir in the Taiwan political world and among the people. During

the current survey, TIENHSIA also focused especially on these election bribery arrests and sentences in its survey of public opinion.

The results of the survey showed that only about 40 percent of the people applauded the actions taken to eliminate bribery that the media reported so widely, and about one-third of those interviewed were not satisfied. The most representative reactions of those who were dissatisfied were: "When the matter reaches the Supreme Court, the sentences will certainly be changed to not guilty," "the party chairmen should be arrested, not just members of the county and municipal assemblies," and "cases were tried selectively; this was no thorough reform." Obviously, "arresting a few assemblymen just for show," can no longer satisfy the public. What the public expects is complete, thorough, and genuine reform.

Nevertheless, despite the incomplete satisfaction, more than 60 percent of the public agreed that these arrests and sentencings for election bribery helped reform future election bribery problems. The concerns of those who felt they were of no use in improving election bribery were as follows: "Bribery occurred in the recent village elections. 'Bribed election democracy' is frightful," and "Some people have backers. It is still the same old situation."

Dissatisfied or not, or whether the arrests helped or not, the greatest consensus of the overwhelming majority of those interviewed was that "severe laws are needed in tumultuous times." Nearly 80 percent of those interviewed were in favor of more severe election bribery penalties. Those not in favor numbered less than 6 percent, and many people suggested "penalties for both those who buy and those who sell votes." [passage omitted]

When the National Assembly was in session, people concerned with the administration of justice went to Yangmingshan with a collective petition calling for an independent judiciary having autonomy over its own budget and personnel. However, in the eyes of the public, just what is the most serious problem with Taiwan's judiciary?

The survey showed that those interviewed felt the most serious problems with Taiwan's judiciary to be: 1) a poor social environment in which the public offers bribes and engages in back door deals; 2) the personal integrity of personnel concerned with the administration of justice; and 3) no independent judiciary. Clearly, the public remains most dissatisfied with bribery, and unfairness and lack of honesty in customs duties. Reform of the judiciary seemingly should begin with a self-cleansing of judicial organs. The most encouraging result of this survey was that most people expressed positive views about the way in which Taiwan's judicial organs have been developing in recent years. Among those interviewed, about 60 percent felt that the judiciary has made progress during the past three years. However, one point

about which the authorities should be concerned is doubts about the future. Quite a few people still harbor doubts. Only half believe that the government is determined to move ahead with renovation of the judiciary. Only about 40 percent expressed optimism about the future of judiciary reform. [passage omitted]

This survey was conducted from 11 through 14 June, a systematic random sampling telephone survey conducted in all parts of Taiwan. The effective sample was 1,215 people. At a reliability of 95 percent, the sampling error is within plus or minus 2.81 percentage points.

Martial Law Policies Mentality Satirized

94CM0360B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 382, 9 Jul 94 p 30

[Article by Ji Yen-ling (4764 1693 7117): "After Bound Feet Are No Longer Bound, the Stink of the Foot Bindings Lingers On"]

[FBIS Translated Excerpt] Martial law is a symbol of crimes against democracy. It is like a foot binding on democracy. Not only does it completely destroy the foot muscles and bones of democracy, but after it is taken off, democracy is like a bound foot that limps along. Like a poisonous viper that one tries to avoid but fears he cannot, everyone has a "Taiwan phobia" politically. This is true in domestic and foreign affairs alike. In the end, not only does one have a split personality, but civic morality becomes split as well.

Recently, when the Legislative Yuan was discussing the names to be used for units abroad in countries with which Taiwan has no diplomatic relations, the lingering bound feet stench of martial law pervaded every corner of the conference hall once again. The Kuomintang legislators opposed any term like "Taiwan Representation" because it was like a term used during the martial law period that might make people feel as if time were running backward.

Actually, an overwhelming majority of the Kuomintang personages on the political stage today are of the unbound bound foot type. Although very much more enlightened that the old martial law experienced hands whose feet are still bound today, they still find it hard to avoid hobbling along the road of democracy. No matter how hard they try, they cannot stride along rapidly and vigorously like "natural foot politicians."

Political personages in Taiwan today may be divided into three categories. In the first category are the "bound foot politicians." Those in this category are represented by the nonmainstream faction of the Kuomintang. No matter how times change, they do not change their original aspirations of their "bound food line of reasoning." In the second category are mostly those who have a political constituency. Although they are ashamed to associate with the bound foot group, inasmuch as it is only recently that the bindings were removed from their own feet, the lingering ill effects of marital law have not

yet been completely purged from inside their bodies, and neither has the stench entirely disappeared from their person. For example, they advocate democracy in which a majority party forms the cabinet and the opposition parties serve as watchdogs, yet they still find it difficult not to use unscrupulous means to monopolize resources and use evil practices to maintain political power.

In the third category are the "natural foot politicians." This category is represented by the opposition parties. They depend on a pair of sturdy natural feet. When they come upon a mountain, they cross the mountain; and when they come to a stream they ford it. Because they move rapidly and take giant steps, they leave the bound foot politicians and the unbound foot politicians in the dust. However, these fearless barefoot politicians also find it difficult not to butt heads with each other, or not to move too rapidly or in the wrong direction.

Although one can often smell the lingering stink of martial law on the bodies of the bound foot politicians and the unbound foot politicians, the effects of martial law lingers even in the hearts of the natural food politicians. An example is the Democratic Progressive Party's recent suspicions about the Investigation Bureau's handling of several recent government-for-sale corruption cases, which focused entirely on the rebound from their disclosure of zhonggong [0022 1562] confidential letters. This is a reflection of the martial law psychology. [passage omitted]

Danger of Solipsism in Politics

94CM0382B Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 384, 23 Jul 94 p 8

[Article by Nan Fang-Shuo (0589 2455 2592): "Everyone Is Punished To Stand Still In a Circle He Himself Draws"]

[FBIS Translated Text] There have been no sage remarks heard for a long time in Taiwan. Therefore, when Master Hsing-yun [famous buddhist master] said to Wu Poh-hsiung: "Minister Wu, you yourself draw a circle, and punish yourself to stand still in this circle," What Hsing-yun said is really a sage remark rarely heard in recent years. It not only makes Minister Wu examine himself, but also prods all the people in Taiwan to think. Naturally those who should examine themselves are persons who play politics.

"A person draws a circle and punishes himself by standing still in the circle." There are many people like this in Taiwan. They are mentally blind and act like one bewitched. When they think of something, they want all the people in the world to play this thing with them. In philosophy or psychology, this symptom is called solipsism, the theory that the self is the only thing that can be known and verified. Naturally it is not realistic. When a person has this kind of symptom, there is no end to it. He or she would go to extremes and even become hysterically fascist. When an ordinary person without any

power suffers from this disease, the worst he or she can do is to get angry at himself. However, when one who has power suffers from this disease, it is disastrous!

This is precisely the situation in Taiwan. Too many of our politicians are drawing circles. They punish themselves by standing still in the circle. Due to the fact that they have power in their hands, they naturally can drag other people into the circle and stand still as punishment. If everyone is standing still as punishment, how can Taiwan become a happy place? [passage omitted]

James Soong: Master of 'Chinese Kung Fu'

94CM0382A Beijing HSIN HSIN WEN [THE JOURNALIST] in Chinese No 384, 23 Jul 94 pp 42-43

[Article by Cii. Yen-ling (4764 1693 7117): "James Soong Relies On a Jar of Soybean Paste To Defeat Wu Poh-hsiung"]

[FBIS Translated Excerpt] After Wu Poh-hsiung withdrew himself from the election and resigned from his government post, there suddenly prevailed an atmosphere of gentleness and mutual concession in Taipei's political arena. First of all, James Soong had visited Wu Poh-hsiung three times to show his sincere appreciation. Later, high-ranking Kuomintang officials lined up at a standing committee session of the Kuomintang Central Committee to pay their respect to Wu Poh-hsiung. Following this, Kuomintang Chairman Li Teng-hui himself went to Wu's residence to pay his regards. This work style of treating comrades with respect and love and showing each other kindness and courtesy had suddenly turned the Kuomintang into a "party of civility" which is similar to Yao, Shun, Yu and Tang, four of the most celebrated sage kings in ancient China. [passage omitted]

In particular, the kind of courtesy and humbleness expressed by and the kind of beautiful words uttered by James Soong are the most magnificent of all. At the beginning of the contention between Soong and Wu, James Soong had more than once ridiculed his opponent. The typical remark he made was that "Mount Jade is higher than Mount Ali." However, remarks with venomous stings such as this immediately became words as sweet as honey after Wu Poh-hsiung withdrew his name from the election. Remarks such as "your political views are mine," "your friends are mine" and "I and Wu Poh-hsiung are like brothers" poured out of James Soong's mouth everyday.

James Soong is quite familiar with the imperial etiquette since he lives so close to the imperial palace for so long. Among the middle-aged politicians, he is known to be good in "Chinese Kung-fu" and remains unrivalled in the political arena. When he was the Secretary-General of the Kuomintang Central Committee, he always courteously called on the senior politicians of the conservative faction to seek advises, although the latter frequently interfered with his work without reason. With this kind of Chinese Kung-fu technique of "keeping a low posture

but imposing a high demand," he had defeated many political old hands and made those senior politicians who are wise in the ways of the world "feel difficult to say anything, although they know that they have been defeated."

Although Wu Poh-hsiung was unwilling, discontent, resentful and angry when he withdrew his name from the election, he still needed to force a smile for several days to socialize with James Soong. He could not use any abusive language or show hatred on his face. His inner sufferings and helplessness were the same as those of the defeated senior politicians who had retired and lived in seclusion. Hao Po-tsun had described James Soong's style of work as a "doctrine of setting others in order." This time, Wu Poh-hsiung had finally learned a lesson from Soong's best and most fierce Kung-fu trick.

The fact that James Soong was able to defeat several political opponents who had stretched over two dynasties is something that rarely happens within the Kuomintang. This can be regarded as a miracle rarely seen in a century.

James Soong is a politician who relies a great deal on the relationship between the master and the subordinate. In history, those who were promoted to higher offices by relying on this relationship often found themselves weak in their foundation for power. Once the dynasty changes, their official positions and handsome salaries would be gone forever as a fleeting cloud. However, James Soong is able to gradually climb up the ladder in the political arena as the favorite courtier of the emperors of two dynasties. This is truly something rarely seen in the century-long history of the Kuomintang.

The relationship between the master and the subordinate is often maintained by the favors bestowed by the master and the loyalty shown by the subordinate. No one can bestow more favors to James Soong than Chiang Ching-kuo and Li Teng-hui, while James Soong's loyalty to them is also rare. James Soong had told his staff members in private that "When a man exceeds 50, he must remain loyal at all times. Under no circumstances should he become shilly-shally." Recently he once again openly said that "all of us are President Li's unswervingly loyal troops." How can Li Teng-hui not feel gratified by this kind of obedient faithfulness.

—In addition to the favors bestowed by the two presidents, James Soong has also been the favorite of the media since he took the government post. However, those who had interviewed him shared similar experience: He never answered a reporter's phone call. Nor did he engage in small talk with the media. To deal with reporters is the job of his staff members. His own work is to deal with the reporters' bosses.

Some people criticized this work style of James Soong's as paying attention to people at higher level while ignoring those at the lower level. His explanation is that "if I regularly maintain contacts with reporters, others

will say that I am trying to build up a momentum." Overtly he may seem to have given much thought to this matter, but it is a specious argument. James Soong relies on propaganda to grow and thrive. He knows about when and how to feed the media. Although he ordinarily turns down individual interviews by any reporter, he never wants to lose any chance to speak before a microphone when he goes to the rural areas on a tour. No one can match James Soong's skill in using the best time, location and topic to glorify himself in the political arena. News reporters "detest him in their mind, but hesitate to say so." Although they fully understand that they are being utilized, they are unwilling to discard him. They often have no choice but to repeatedly dance to his baton.

—James Soong's Chinese Kung-fu which he learned from the imperial palace not only makes his superiors speechless and the reporters helpless, but also fools many people. Politicians are invariably slick talkers. James Soong is no exception. In the early days when he was the Director General of the Government Information Office, he was famous in making well-known sayings. Although he did not make any celebrated dictum himself during the past year or so in the provincial government, he often quoted some proverbs and idioms to glorify himself such as "When a man does things, the Heaven is watching," "When a person does me a favor, I would pay him back ten times more," "I concern myself about the weal and woe of the people," and "I dare to shoulder loads as heavy as 1,000 or 10,000 catties." James Soong can

read aloud the proverbs and common sayings which are readily understood by everyone.

In the past several years, James Soong was always plagued by the image of being a part of the imperial court. After he took office in the provincial government, he has tried his best to change people's image on him. One of his tactics to "identify himself with the people" is to learn how to speak the Taiwanese dialect and use idiomatic phrases. However, his style of work of slogan-chanting has always given people the impression of painstakingly advertising his self-styled superiority and the utter lack of substance. A person who used to wear a mask at all times may make people wonder whether it is his true face even if he one day reveal his real countenance. Many people are of this impression when they judge James Soong's many words and actions.

Naturally James Soong has his own merits to sharply rise in the political arena since he worked for the government. However, the protection and the pull from the higher authorities are the key factors. Although the result of the nomination for the provincial governorship showed that Soong had defeated Wu, Wu Poh-hsiung had lost not because James Soong was stronger than him in strength but he had failed due to his relations. The political culture of the Kuomintang is always greatly affected by "relations" rather than "strengths." The struggle between Wu and Soong has proven that there is not much change in this political culture. [passage omitted]

Forum Views Pre-1997 Political Landscape

94CM0379A Hong Kong TANGTAI
[CONTEMPORARY] in Chinese No 40, 15 Jul 94
pp 4-10

[Seminar on Pre-1997 Political Development: "Democratization and Stability to Precede 1997"]

[FBIS Translated Excerpt] Hong Qingtian [3163 3737 3944], Hong Kong Statistics, Strategic Studies and Market Research Consulting Company.

Lei Jingxuan [7191 0352 2467], lecturer, Department of Public and Social Administration, Hong Kong City Polytechnic

Wang Wenyan [3769 2429 1750], managing director, Changjiang Real Estate Consulting Co.

Cheng Xiang [4453 5046], editor-in-chief, TANGTAI

Liu Ruishao [0491 6904 4801], deputy editor-in-chief, TANGTAI [passage omitted]

en reform plan has been passed, I expect Hong Kong to experience a brief wave of democratization. With that in mind, what is your picture of Hong Kong in the next 3 years? With the CPC so determined to "dismantle the old system," to what extent will society be destabilized if the Communists really go ahead with that?

[Lei Jingxuan] I reckon there will be no major unrest in Hong Kong in the three years following the adoption of the Patten plan. For one thing, now that he has had his way in political reform, Patten will shift his attention to mending relations with China in order to seek the latter's cooperation in other areas (civil service, for instance) in the interest of a smooth transition. Patten relied mainly on democratic forces for the passage of his plan and was opposed by local industrial and commercial interests, the Hong Kong government's traditional ally. This has undermined the government's base of support. In the next three years, therefore, Patten must rebuild his relations with the industrial and business community. For these two reasons, Patten will not introduce a lot of sensitive measures in the next three years.

[Hong Qingtian] Will a piece of unpopular political reform lead to social unrest? Probably not, because the people of Hong Kong are mature enough to handle these differences. Even the CPC, the plan's most vociferous opponent, will encourage its people in Hong Kong to participate in the election game. Thus Hong Kong society will remain essentially stable in the next three years. Nor am I worried about China "dismantling the old system." What does worry me is how the CPC proposes to sell its own plan. No matter how incompatible the plan now being drafted by the CPC is with the old system, that is not a big deal. What is most important is how the CPC plans to market its new system to make it acceptable to the people of Hong Kong. How is the CPC going to convince people by reasoning? And, if it fails to do that, how is it going to deal with opposing

opinions? That is what really matters. As a matter of fact, throughout the debate on political reform, the people of Hong Kong focused on the ways in which the CPC deals with differences of opinion, not the number of directly elected seats. (Few people demanded that all seats be directly elected.)

[Cheng Xiang] A short-lived democratic movement is expected to follow the passage of the Patten plan. How should the people of Hong Kong make the most of this period to pave the way for a modern democratic system? Can the existing democratic groups in Hong Kong live up to the call? Please give us your assessment.

[Hong Qingtian] Hong Kong's democratic groups have some re-learning to do, I believe. Local democratic groups had their rise in the struggle over the rules of the democratization game in the last dozen years or so. Now that the big picture is settled, democratic groups must redefine their place in society. Having realized the crisis they are in, the Liberal Party representing the business community as well as the pro-Beijing Democratic Alliance for the Betterment of Hong Kong are turning to the grass roots and learning how to organize themselves at the grass roots. They have done a lot of work on that front. In contrast, democratic groups have made no attempt to deal with the business community and even psychologically reject such an approach.

[Cheng Xiang] Under Chinese pressure, business and industrial interests have distanced themselves from democratic groups.

[Lei Jingxuan] The fact of the matter is that the people of Hong Kong have a PRC phobia. Democratic groups have tried, in vain, to develop closer ties with business and industry.

[Wang Wenyan] The CPC's hang-tough attitude has made business and industry hesitate to deal with democratic groups. That is a fact. However, it does not seem that the democratic forces have tried very hard.

[Hong Qingtian] No doubt there is the Chinese factor in all this, but the democratic groups, for their part, have ignored their own limitations and blame their plight solely on pressure from Beijing. That is a sign of their refusal to grow up.

[Lei Jingxuan] Democratic groups must develop a clear sense of their place in society. In the final analysis, democratic groups belong at the grass roots. They are grass roots in value, thinking, and practice. In the foreseeable future, they should be content with their role as the opposition. At a time when the CPC is resisting democratic development in Hong Kong and when some people in the business community are beginning to tilt toward Beijing, it is essential that democratic groups be preserved as a voice of the opposition under Hong Kong's election system. Most people in the middle class as well as the grass roots would like to have an opposing voice to counteract some of the moves of the CPC that

they find unacceptable. Objectively speaking, even if the democratic groups ally themselves with business and industry, they cannot be a ruling party. So it would be a wise move on their part to choose to be a well-defined opposition force. What worries me is that lacking self-knowledge, they may try to be the ruling party, a very unrealistic move in the near future.

[Wang Wenyan] Democratic groups have always played the role of the opposition. The difference is whether they decide to operate inside or outside the system. If they are content to operate outside the system, they naturally would not need the support of other groups such as the business community. If they fail to do any strategic planning, I'm afraid they cannot even function as an opposition party outside the system after 1997. A number of democratic leaders like Li Zhuming [2621 2691 6900] and Situ Hua [0674 1778 5478] must step down to ensure the survival of democratic forces beyond 1997.

[Liu Ruishao] What a stepping-down strategy would achieve will depend on the position in which the CPC finds itself. If Li Zhuming and Situ Hua were to step down now, that would only make the Communists swell with arrogance, smug in the knowledge that their hang-tough policy has paid off.

[Hong Qingtian] As far as their relationship with the Chinese are concerned, democratic groups do not have the initiative. It would be better for them to first concentrate on the bread and butter issues of the people of Hong Kong, launch a united front campaign targeting the more enlightened elements in industry and business, redefine themselves in society, and ensure their smooth survival in the transition without sacrificing their principles. If they manage to do that, they will succeed in sending a message to the Chinese that democratic groups are not as destructive as they imagine them to be and are needed as a stabilizing force in Hong Kong. Broadening the base of democracy is preferable to some leaders stepping down. Given the present political situation, if Li Zhuming and Situ Hua were to be removed, you would have no democratic groups at all.

[Lei Jingxuan] The tactic of "abandoning the chariot to protect the commander" is illogical. Fundamentally speaking, democratic groups derive their strength from a sense of moral mission. Tactical withdrawal is tantamount to knuckling under power. That would take away their sense of moral mission, something unacceptable to both the people within the democratic groups and electors alike.

[Wang Wenyan] As far as Situ Hua and Li Zhuming are concerned, stepping down is still a little more acceptable than changing course.

[Cheng Xiang] It is unnecessarily pessimistic to link the fate of these figures who are a thorn in Beijing's side to the changing political situation on the mainland, isn't it? The Hong Kong policy of the future younger generation

of leaders on the mainland would be more liberal and less rigid than that of those in power now.

[Lei Jingxuan] Chinese politics is now more rational. The ultra-leftist line is no longer in command. That's for sure. However, we cannot afford to be too optimistic in the foreseeable future. When all is said and done, Hong Kong is a British colony. From a nationalist perspective, the struggle to end an inglorious chapter in China's history still has a lot of appeal on the mainland. Beijing's sharp criticism of the Patten plan, for instance, was driven by nationalism. The fact that the plan was adopted with the support of democratic groups hardly endears those groups to the CPC. Nor will the Communists change their perception that democratic groups are their enemy. Perhaps Beijing will adopt a more friendly attitude toward lesser democratic groups to show that it is not being excessively tough. Nevertheless, it is out of the question for the CPC to give democratic groups more room to maneuver.

[Wang Wenyan] Democratic groups seem to have taken too extreme a position on some issues. Their stance on the most-favored-nation issue, for instance, convinced the Chinese Communists that democratic groups are anti-nationalist. Mainland resistance to the Hong Kong United Democratic Alliance's effort to redefine its position comes not only from the leadership in Beijing, but also from some people on the preparatory committee, certain Hong Kong Advisers, and other local pro-Communist elements. These people will not readily accept any change.

[Hong Qingtian] Democratic groups are not sensitive to social change. They see everything in black and white. The fact of the matter is that Hong Kong is a highly dynamic society. Every stratum is constantly changing, not just industry and business, but also the grass roots. It is just that they are changing at different rates. It may be that democratic groups have worked themselves into a new mentality, one of moral establishment. After fighting their way into the establishment as a moral force, they have stood still and refused to move forward, oblivious of the fact that what they consider their political bedrock is actually slipping away from under their feet like quicksand. If they continue to fail to re-examine themselves and live up to the challenge of thoroughly studying the position put forward by middle-of-the-road groups and business and industry, and thereby strengthening themselves, if they fail to do all that and instead condemn the opposition in moral terms and fail to take a broad view, a day will come when the quicksand will have completely slipped away and they would have lost all support. There is a self-contradiction within the Hong Kong United Democratic Alliance; it is not content to be a moral opposition but aspires to be a ruling party. Its march on the Government House after the 1991 election is the most telling illustration.

[Lei Jingxuan] The Hong Kong United Democratic Alliance does indeed aspire to be a ruling party, but the

voters will not cast a single vote to put it into office. In their wisdom, the voters have already assigned a role to democratic groups, which is to be a voice of the opposition.

[Cheng Xiang] The Chinese have declared they will "dismantle the old stove" after 1997. How likely is that? I am skeptical because at one point the Chinese were vociferously opposed to the creation of district boards, which they considered an attempt by some people to bring about Hong Kong independence, only to accept them later as part of the system and actually take part in board elections. Suppose the political reform plan works well in practice. Will it not be spared the fate of extinction? What concerns me is not Beijing as much as the newly created pro-Communist figures in Hong Kong. Out of self-interest, they are determined to get rid of the stuff left over by the Hong Kong British government. These people came to the fore as Sino-British relations deteriorated. To ensure their own survival and perhaps a share of power in the future, they will do their level best to dismantle the old system.

[Hong Qingtian] There can be no departure from the principle that the post-1997 political system should be compatible with the Basic Law. Thus legislators elected under the 1992 plan must give up their seats in 1997. The "old stove" will be dismantled. The only question is how.

[Lei Jingxuan] What the CPC Central Committee has decided upon will not be changed. If the past is any guide, Beijing will move quickly to create the "new stove." What has yet to be determined is the extent to which the "old stove" will be dismantled.

[Liu Ruishao] There are two groups of pro-Communist figures. The first group consists of those who have followed the patriotic line for years but still criticize many things the CPC has done. The second group is of recent origin and its position smacks heavily of opportunism. Within the pro-Communist camp, the traditional patriotic elements look askance at the opportunistic patriots. Of all forces in the pro-Chinese camp, I think the Democratic Alliance for the Betterment of Hong Kong should be able to play a more active role.

[Hong Qingtian] As a matter of fact, the Democratic Alliance has been hard at work making plans for the elections even before the plan was adopted. The plan will work to the disadvantage of the Democratic Alliance, which stands to capture four to five seats.

[Cheng Xiang] Maybe the democratic groups should consider allowing left-wing figures to join the system. For one thing, that will allay the CPC's fears about the 1994, 1995 elections. For another, it will unite the democratic forces and help them salvage something in the future when the CPC "dismantles the old stove."

[Lei Jingxuan] The democratic forces will not give up seats on their own initiative. Even if some democratic

figures are far-sighted enough to favor such a move, there will be strong internal opposition. Actually, it is unlikely that in 1995 the democratic groups will again enjoy the edge they did back in 1991, let alone give up seats. The Hong Kong people are adept at self-regulation. At the critical juncture the Legislative Council found its point of balance. Similarly, voters will pick some people acceptable to the Chinese Communists. Hong Kong voters have become so politically sophisticated that there is no reason why we should worry that they would hand a land-slide victory to the democratic groups in 1995, to the chagrin of Beijing. Right now what the democratic groups should consider is whether or not to continue their one-on-one strategy of 1991 to keep the Liberal party or the Democratic Alliance for the Betterment of Hong Kong at bay.

[Hong Qingtian] It is highly likely that Beijing will dismantle Governor Patten's "stove" in 1997. On the other hand, we cannot rule out the possibility, slim as it is, that it will do no such thing. Beijing must consider one principle, which is the Hong Kong people's bottom line. Should Beijing decide to reorganize things in accordance with the current principle of holding open, fair, and honest elections, the people of Hong Kong will find it acceptable. Thus what matters most in dismantling the "old stove" is procedure, not any structural change.

[Wang Wenyan] There are several central figures in the Democratic Alliance who are quite enlightened. They see eye to eye with Hong Kong United Democratic Alliance on certain issues and are critical of the bunch of newly created pro-Communist personalities. It is hoped that the Democratic Alliance will side with the people of Hong Kong more often and put forward constructive suggestions to the CPC Central Committee instead of simply toeing the Beijing line all the time.

[Hong Qingtian] The Democratic Alliance for the Betterment of Hong Kong is now facing a major challenge, not just from the election, but also from a host of new patriotic figures, Hong Kong Advisers, and the preparatory committee. As the non-mainstream seeking to broaden its living space, it must strengthen itself internally by attracting people from all walks of life, particularly intellectuals, so that it can truly represent the people of Hong Kong. I hope the Democratic Alliance will make an effort to overcome its past weakness, namely its "living-in-Hong-Kong-but-identifying-with-Beijing" philosophy. It has gotten out of touch with local developments in recent years. It should use the insight it obtains from self-improvement and sell it to Beijing in a language acceptable to the CPC, so that it can handle Hong Kong affairs using Hong Kong culture, values, and standards.

[Cheng Xiang] There were high expectations of the Democratic Alliance when it was first set up because its leaders declared that they hoped a host of enlightened leftists would coalesce around it. Today the alliance not only resembles the CPC organizationally but also talks

the same talk. At times it seems it has become Beijing's spokesmen consciously or otherwise.

[Liu Ruishao] The Democratic Alliance for the Betterment of Hong Kong enjoys some advantages. For instance, it has a direct line to Beijing. However, if it just keeps on harping on these strengths without taking the initiative to ally itself with people within and without, it will remain a lone force unable to do much. Its failure to speak out and criticize the CPC's unjustifiable policies also has limited its thinking. The Democratic Alliance has always impressed people with its sincerity and disinterestedness. However, some of its steady workers regard the rule of the local government as a sham democracy and oppose it indiscriminately. The patriotic elements also have trouble accepting the Johnny-come-latelies, wealthy investors. In doing so, they have indirectly become participants in the power struggle. The only thing which they have going for them vis-a-vis the newly rich is their loyalty. In the course of time, therefore, they will begin to talk more and more like the CPC Central Committee and will have missed all opportunities for independent thinking.

[Hong Qingtian] We can't expect too much from the Democratic Alliance because it is under pressure from both above and below. When Governor Patten unveiled his reform plan, the Chinese side desperately wanted the Democratic Alliance to be a countervailing force. The alliance simply had no time to think. All it was after was survival.

[Hong Qingtian] There is also considerable pressure from the grass roots. Some of its members such as those who belong to groups like neighborhood associations have remained unassimilated into Hong Kong society despite having lived here for decades. They are the embodiment of a simple patriotism. Now that they can stand up together and become real human beings, they tend to be radical in their thinking. If the Democratic Alliance makes a wrong move, however minor, and it will be roundly criticized by these people. The 1995 election is an excellent opportunity for the Democratic Alliance. It should make good use of it to attract people from all quarters and remake its entire membership gradually over time.

[Cheng Xiang] The CPC has condemned democratic groups as criminals engaged in sabotaging the nation. Pro-Communist elements, on the other hand, are not widely acceptable to the people of Hong Kong. How then can the people of Hong Kong find their voice?

[Hong Qingtian] I propose the formation of a deliberative body made up of people unaffiliated with any party or faction. Its responsibilities will be to comment on

issues systematically in a principled way and exercise supervision over the three parties, namely the government, the political parties, and the media. It should critique every single move made by these three players, analyze the way they handle matters, including their rationale and motive, and conduct thorough discussion calmly and dispassionately. It will serve as a channel of communication, promote mutual respect and the use of reason to win an argument, and raise the tone of social discourse through debate. Let knowledge be the judge in the final court of appeals in politics.

[Lei Jingxuan] Hong Kong is a society without political activities. Powerful politicians have run the show through all the ups and downs over the years, from social movements to debates within the Legislative Council. Intellectuals are in no position to tell politicians what to do.

[Hong Qingtian] We need to remove politics as a factor and use knowledge and analyses to build a political culture that has a world outlook. We must use the penetrating power of the electronic media to educate the masses. Given Hong Kong's current environment, it is essential that intellectuals become organized.

[Cheng Xiang] Will the people of Hong Kong arrive at a consensus on the factors that may affect the implementation of "one nation, two systems" in the future? In other words, where does the potential danger for Hong Kong really lie? Some people's "independence" and "subversive" activities? Too much intervention by the mainland, which will reduce a high degree of self-rule to empty talk? Or a convergence with the more backward system, leading to the regression of Hong Kong society? Personally I tend to think the latter presents a greater potential danger. Without a consensus on what constitutes a potential danger to us in the future, we will have difficulty concentrating our forces to deal with it. If we do arrive at a consensus, all parties and groups should shed their prejudices and form an alliance with one another, forming a more potent force to deal with the danger. Otherwise it will take just a small dose of united front to divide the people of Hong Kong. If we arrive at a consensus on what the potential danger is, then many superficially irreconcilable differences which now divide the people of Hong Kong will appear totally immaterial before the looming danger. I hope the people of Hong Kong will successfully pool their forces in the next three years.

[Lei Jingxuan] A professor once suggested organizing a joint conference to bring together all political parties so that they can work out their differences. This is an idea worth considering.

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